Chapter 2

Key issues

2.1 The majority of submissions raised concerns about the proposed changes to the pension assets test and taper rates outlined in the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 (Bill). These submissions recommended any changes to the age pension assets test should be made as part of a broader retirement income review. A small number of submissions also raised concerns about the following measures:

- ten per cent cap on the deductible amount for defined benefit income streams;
- pension portability;
- abolition of the seniors supplement; and
- abolition of education supplements and entry payments.

2.2 The Department of Social Services (department) noted in its submission the measures outlined in the Bill:

> emphasise the role of the social support system as a safety net for those unable to fully support themselves and the expectation that people with substantial resources should use their assets either directly or to produce income to meet their day-to-day living expenses rather than calling on the social security system for support.[1]

Changes to assets test and taper rate

2.3 A number of submissions supported the proposed changes to the assets test and taper rates.[2] The Australian Council of Social Service (ACOSS) noted the change 'would better target the pension to those who need assistance from government'.[3] ACOSS further noted those pension recipients who would be adversely affected by the proposed changes:

> are unlikely to face financial hardship because the assets available to them are sufficient to provide a buffer against poverty, in addition to any part age pension to which they may be eligible. Those with significant assets can generally avoid financial hardship through a combination of investment income, part-pension income and, where necessary, partial draw down of their financial assets, bearing in mind that once assets fall below a certain level the pension will increase.[4]

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1 Department of Social Services, *Submission 5*, p. 1.

2 See: UnitingCare, *Submission 2*; National Welfare Rights Network (NWRN), *Submission 7*; Australian Council of Social Service, *Submission 15*.

3 *Submission 15*, p. 2.

4 *Submission 15*, p. 5.

2.4 The department estimated the following impacts of the changes on social security and veterans' affairs pension recipients:

- 171 500 with moderate levels of assets would receive an average of around $30 more per fortnight (including 50,000 part rate pensioners who would become entitled to the full pension);
- 236 000 with higher levels of assets would have their part pension reduced at an average of $130 per fortnight; and
- 91 300 would have their pensions cancelled at an average loss of $190 per fortnight.[5]

2.5 The department noted the proposed change is expected to save $2.4 billion over the forward estimates.[6]

Retirement income review

2.6 A number of submissions recommended any changes to the assets test should be formulated as part of a broader retirement income review and 'piecemeal change' is to be avoided.[7] The Committee for Sustainable Retirement Incomes (CSRI), which supports the development of a whole-of-government retirement income strategy, expressed concerns that:

> piecemeal approaches, such as the Government's focus on the age pension means test … will only continue uncertainty about the retirement incomes system as a whole and introduce new complexity and unintended effects without achieving the claimed purpose of greater sustainability.[8]

2.7 CSRI suggested that a more 'holistic approach is needed to reform our retirement incomes system and that this needs to be guided by an agreed set of objectives and supporting principles'.[9] ACOSS suggested a broader review of the retirement incomes system should specifically address:

> the fairness and sustainability of the superannuation system; and be complemented by the establishment of a regular independent review of payment adequacy.[10]

2.8 The Council on the Ageing Australia (COTA) noted it has led the way in calling for a dedicated, independent retirement incomes review and emphasised:

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5 *Submission 5*, p. 8.

6 *Submission 5*, p. 8.

7 See: Tax and Transfer Policy Institute, *Submission 8*, p. 11; Industry Super Australia, *Submission 9*, p. 4; Committee for Sustainable Retirement Incomes, *Submission 13*, p. 5; COTA, *Submission 14*, p. 3; ACOSS, *Submission 15*, p. 2; Australian Institute of Superannuation Trustees, *Submission 17*, pp 2–3; National Seniors, *Submission 18*, p. 2.

8 *Submission 13*, p. 5.

9 *Submission 13*, p. 8.

10 *Submission 15*, p. 2.

> [M]oving a relatively small group of people off the public pension thereby forcing them to adopt a different financial management strategy without addressing broader underlying issues will not by itself result overall in a more sustainable Retirement Incomes System. There is a pressing need for an integrated, systemic understanding of and approach to retirement incomes, rather than piecemeal change.[11]

2.9 The department noted that changes to the assets test and taper rate:

> protects or improves outcomes for those only able to save moderate amounts to supplement their Age Pension, while limiting access to the pension for those with sufficient means to support a significantly higher standard of living than the Age Pension.[12]

2.10 In this context, the committee also notes the department's comments that the age pension 'should not be expected to operate as a top–up that allows retirees to retain their capital base intact'.[13]

2.11 The department explained tightening the assets taper rate 'will ensure that retirees who have the capacity to support themselves no longer receive the Age Pension'. The department noted:

> [T]he point of providing taxpayer funded incentives through the tax system for superannuation is that people draw down on those savings to ensure a good standard of living in retirement.[14]

2.12 During the second reading speech on the Bill, the Minister for Social Services (Minister), the Hon. Scott Morrison MP, noted the measure aims to result in:

> an increase in pension payments for those with modest to low levels of assets, while requiring those with more substantial assets to draw on the assets that they have built up to ensure that they do not have to draw down on a pension in their retirement.[15]

Disincentive to save

2.13 A number of submissions noted the proposed taper rate of $3 per fortnight per $1 000 assets would lead to a 7.8 per cent withdrawal rate for assets held over the free area, which may be higher than the amount people may be earning on their investments and would thus create a disincentive to save.[16]

2.14 The Australian Council of Public Sector Retiree Organisations (ACPSRO) supported changes to the assets test, but opposed the change to the taper rate, noting it

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11 *Submission 14*, p. 5.

12 *Submission 5.1*, p. 4.

13 *Submission 5.1*, p. 4.

14 *Submission 5*, p. 7.

15 The Hon. Scott Morrison MP, Minster for Social Services, *House of Representatives Hansard*, 4 June 2015, p. 3.

16 See: *Submission 8*; *Submission 12*; *Submission 13*.

'would mean that a retiree loses more age pension than they can earn on their additional savings if their assets earn less than 7.8 per cent a year'.[17] ACPSRO argued:

> [T]he government may save money in the short term, but in the longer term people will start wondering if there is any point in saving if it is only going to leave them worse off in the long run.[18]

2.15 Likewise, the Australian National University's Tax and Transfer Policy Institute (TTPI) noted in its submission that the proposed changes:

> penalise savers, particularly those who have saved outside of tax-advantaged vehicles such as superannuation or (to a lesser extent) housing, and may induce behaviour changes among savers which undermine the hoped-for budget savings of this measure.[19]

2.16 The department noted in its submission that many of the criticisms of this measure:

> cite the low rate of return available in bank deposits or term deposits. However, this is not a typical asset allocation for someone with a large amount of retirement savings.[20]

2.17 The department further noted that:

> [R]ather than being disadvantaged by having substantial savings, retirees affected by the assets test changes could still support a significantly higher standard of living in retirement than the maximum rate of pension through a combination of investment earnings, capital drawdowns and eventual pension entitlements.[21]

2.18 The department challenged claims the impact of the changes in pure income terms would create a disincentive to save, noting:

> analysis based purely on income is flawed as it does not recognise the capacity of people to draw down on their assets to support themselves in retirement. It suggests that people should be able to earn income from their superannuation and other retirement savings while retaining their capital base intact, with the Age Pension operating as an income top-up. This would mean that the age pension system would support wealth maintenance, rather than savings (including from superannuation) being used for self-support in retirement.[22]

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17 Australian Council of Public Sector Retiree Organisations (ACPSRO), *Submission 12*, p. 2.

18 *Submission 12*, p. 2.

19 *Submission 8*, p. 2.

20 *Submission 5*, p. 10.

21 *Submission 5*, p. 11.

22 *Submission 5*, p. 11.

2.19 TTPI further suggested the proposed changes may lead to 'serious distortions to pensioner's [sic] behaviour' and 'promote risky savings and consumption behaviour'.[23]

2.20 Similarly, CSRI noted there is 'serious danger of the proposed test encouraging unwise investment behaviour', including shifting:

> a significant part of the assets into non-assessable assets such as the family home by repaying the mortgage, renovating or upgrading to a more expensive home.[24]

2.21 A recent media article provided to the committee by David Ingles and Miranda Stewart from TTPI noted that, under the proposed changes, income from savings would be heavily taxed, creating a 'disincentive to save'. Ingles and Stewart further noted that since the 2015-16 Budget announcement, 'we have seen stories emerge of age pensioners changing their behaviour in response to the proposed rebalancing of the age pension asset tests', such as buying more expensive homes or holidays.[25]

2.22 The department refuted suggestions changes to the taper rate would encourage pensioners to spend their assets to circumvent the changes. The department noted pensioners 'who deliberately dissipate large amounts of their assets are not better off', and there is 'no evidence that suggests there is a widespread problem of people deliberately spending money in order to obtain a higher rate of pension'. Rather, the department noted:

> available evidence suggests the great majority of retirees make prudent use of their superannuation and other retirement savings to support their standard of living over the long term.[26]

2.23 During Budget Estimates on 4 June 2015, the Assistant Minister for Social Services, Senator the Hon. Mitch Fifield, confirmed:

> [I]t is not the government's intent to … force people or seek to encourage people to dispose of their assets en masse. It is entirely appropriate that people who have reasonable assets draw down on those over the course of their retirement … the purpose of the pension, the purpose of government policy, is to make sure that there is a level of support for people who do not have significant means. It is ultimately a safety net and it is important that is targeted at those who need the support the most.[27]

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23 *Submission 8*, p. 7.

24 *Submission 13*, p. 7.

25 David Ingles and Miranda Stewart, 'Why pensioners are cruising their way around budget changes,' *The Conversation*, 3 June 2015. See: *Submission 8*, pp 13–15.

26 *Submission 5*, p. 12.

27 Senator the Hon. Mitch Fifield, *Estimates Hansard*, 4 June 2015, p. 101.

2.24 TTPI noted a taper rate of $3 per fortnight per $1000 of assets implies a wealth tax rate of 7.8 per cent on wealth above the new proposed tax thresholds. TTPI argued:

> [T]his is a very high marginal rate in a context where, with real returns of less than 5 per cent on many investments like superannuation, the effective wealth tax exceeds the whole of the real return. Assuming a return to savings of five per cent, a consequence of the asset test is that income from savings is heavily taxed at an effective marginal rate around 160 per cent.[28]

2.25 Ingles and Stewart questioned why 'most middle income savers who eventually need some level of age pension' are subject to the implicit wealth tax, while 'the top cohort [of superannuation savers] who don't need the age pension are never subject to any wealth or bequests tax'.[29]

2.26 The department noted the proposed changes will only affect those with significant levels of assets, and emphasised that role of the age pension is:

> a safety net payment that is designed to support a basic, acceptable standard of living, particularly for those with few other resources. Age Pension is funded from general revenue, in other words by current taxpayers, and targeted through the means test to those who need it most. As a non-contributory social security payment, eligibility for the Age Pension is not based on past income or contributions, or taxes paid during a person's working life.[30]

2.27 During Budget Estimates on 4 June 2015, 'in response to the argument that rich people are better off,' the department clarified:

> they are not better off—they are unaffected, because they never would have got the pension in the first place. But because we are increasing the free area, low-asset-holding people are demonstrably better off. Most of the impacts of the tighter asset test are on high asset holders. Near the cut-out point, a lot of those people would have only been getting small pensions anyway because they were already impacted on the asset test. So the impact will not be profound there but it will exclude them from the pension.[31]

2.28 ACOSS noted those pension recipients who would be adversely affected by the proposed changes:

> are unlikely to face financial hardship because the assets available to them are sufficient to provide a buffer against poverty, in addition to any part age pension to which they may be eligible. Those with significant assets can generally avoid financial hardship through a combination of investment income, part-pension income and, where necessary, partial draw down of

28 *Submission 8*, p. 4.

29 *Submission 8*, p. 15.

30 *Submission 5.1*, p. 5.

31 Mr Paul McBride, Group Manager, Social Security Policy, Department of Social Services, *Estimates Hansard*, 4 June 2015, p. 106.

> their financial assets, bearing in mind that once assets fall below a certain level the pension will increase.[32]

2.29 In response to claims by Industry Super Australia (ISA) that those on low to middle incomes will most be most affected by the changes,[33] the department noted this is a 'positive outcome':

> [I]t shows that the superannuation system is working and is helping people on average incomes to achieve higher superannuation balances by retirement.[34]

2.30 The department further noted higher retirement savings, and a corresponding lower reliance on the age pension, are 'intended outcomes of the superannuation guarantee system' and will allow retirees 'to achieve higher retirement living standards than if they relied solely on the Age Pension'.[35]

2.31 TTPI proposes a 'deemed income approach to means testing the age pension', whereby wealth and income tests are integrated and the 'scope for people to game their entitlements' reduced.[36] TTPI noted both the 2009 Australia's Future Tax System Review and 2013 Commission of Audit recommended the separate age pension asset test should be replaced by a comprehensive means test that deems income from assets.[37]

2.32 The department noted merged means test proposals 'come at a large cost to outlays and have regressive distributional impacts'. The department noted the deeming rate of 6 per cent suggest by TTPI 'would have very severe adverse impacts on the large number of pensioners with lower levels of assets, including many current maximum rate pensioners' while 'more wealthy pensioners would benefit from the change'.[38]

Drawdown on assets

2.33 Submissions also noted the drawdown on assets required to maintain a comfortable standard of living would mean retirees may end up on the part-pension.[39] ACPSRO noted if the changes are passed, 'people will have to start spending their capital in order to survive'.[40]

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32 *Submission 15*, p. 5.

33 See: Industry Super Australia, *Submission 9*.

34 *Submission 5*, p. 13.

35 *Submission 5.1*, p. 7.

36 *Submission 8*, p. 9.

37 *Submission 8*, p. 14.

38 *Submission 5.1*, p. 10.

39 See: *Submission 8*; *Submission 12*; *Submission 13*.

40 *Submission 12*, p. 2.

2.34 In its submission, COTA questioned the Minister's assertion that the drawdowns on assets required to make up for income lost as a result of the changes 'are fairly modest' and would not exceed 2 per cent per annum of the current asset value. COTA noted the 'vast bulk of feedback' from people who derive their income stream from assets (mainly term deposits) earn three per cent or less interest, thus pensioners who choose not to draw down on their asset:

> will be significantly affected, especially in the context of very low and possibly decreasing bank interest rates and returns on other low risk investments.[41]

2.35 CSRI noted the drawdown on assets required to 'generate income streams that deliver adequate standards of living in retirement' is not reasonable and expressed concern that should retirees:

> take the option to rundown their assets more quickly than might be wise in order to live 'comfortably', they would of course become eligible for some part pension as their assets fall below the cut-out points. In other words, the initial budgetary savings would be reduced slowly over time.[42]

2.36 Likewise, the TTPI noted 'many savers with private assets will need to run down their assets substantially to maintain a comfortable standard of living in retirement', noting the government's figures are based on 'optimistic assumptions about the real returns pensioners can achieve'.[43]

2.37 During the second reading speech on the Bill, the Minister noted:

> [P]eople with higher levels of retirement savings have the capacity to draw down on their assets, as intended, to support themselves in retirement rather than calling on the taxpayer for a pension for support. Those most affected by the changes would only have to draw down a maximum of 1.84 per cent of their assets to make up for the loss of their part-pension and maintain their current levels of income.[44]

2.38 During Budget Estimates on 4 June 2015, the department noted the required 1.84 per cent draw down rate would only be required in the 'worst case scenario':

> [T]he people adversely impacted by this measure have holdings in forms that have the capacity to provide more income and more return from them than we have captured in the information that we have provided in terms of the 1.84 per cent draw-down. That is the worst case scenario. It assumes that they are not supplementing their pension through other forms of earnings or returns on their investment. It is just assuming they are doing a

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41 *Submission 14*, p. 4–5.

42 *Submission 13*, pp 7–8.

43 *Submission 8*, p. 5.

44 The Hon. Scott Morrison MP, Minister for Social Services, *House of Representatives Hansard*, 4 June 2015, p. 3.

straight draw-down, when we know in fact that those classes of investment provide returns in excess of 1.84 per cent.[45]

2.39 The department further refuted suggestions that drawing down on assets would mean retirees end up on a part-pension. The department noted 'the majority of pensioners are conservative with their savings' and it is 'not clear how much pensioners will draw down from their assets under the assets test changes'. Modelling by the department on the cost of the pension for a couple most affected by the changes found 'the cumulative cost of the pension for the couple would be lower under the assets test changes for the first 30 years from their commencement on pension'.[46]

2.40 COTA noted it believes there is strong resistance to drawing down on the asset itself due to a number of complex factors, including:

- in our retirement income system longevity risk and investment risk fall largely on the individual (backed up by the age pension);
- a long-held set of values about careful management of resources over time;
- a desire to maintain a 'back up' of financial resources independence from Government;
- a concern to have adequate resources available to fund health and aged care requirements into the future;
- a desire to not be a burden on children; and
- a lack of a range of safe and viable financial products in the retirement incomes market.[47]

2.41 The Minister noted 'it is common for pensioners not to draw down on their assets whilst receiving the pension' and outlined research by the department on asset holdings of pensioners during the last five years of receiving the pension that found:

- 42.5 per cent increased their asset holdings;
- 24.7 per cent maintained their asset holdings at the same level;
- Less than a third had their assets decrease.[48]

2.42 In response to a recommendation by National Seniors that the changes be grandfathered to apply only to new recipients,[49] the department noted grandfathering would not be necessary the changes would only affect those with significant levels of assets. The department noted grandfathering the measure:

45 Ms Serena Wilson, Deputy Secretary, Department of Social Services, *Estimates Hansard*, 4 June 2015, p. 90.

46 *Submission 5*, p. 13.

47 *Submission 14*, p. 5.

48 The Hon. Scott Morrison MP, Minister for Social Services, 'Fairer access to a more sustainable pension,' 7 May 2015, http://scottmorrison.dss.gov.au/media-releases/fairer-access-to-a-more-sustainable-pension (accessed 16 June 2015).

49 *Submission 18*, p. 2.

> would result in systemic inequities, with retirees holding similar levels of assets receiving different amounts of Government support for long periods of time. It would be counter to the intent of the changes, that is, to ensure those who have the capacity to support themselves do not receive support from the taxpayer. It could also have the perverse unintended consequence of encouraging a person, and/or their partner, to retire earlier than they otherwise would, in order to claim pension before the changes commence. The savings generated by the measure would be greatly reduced.[50]

Defined benefit income status

2.43 The committee notes that this measure in the Bill is targeted to ensure fairness in the pensions system by addressing an anomaly in the system that allows some people in defined benefit income streams to access a highly concessional income test.

2.44 Submissions expressed both support and opposition to the proposal to cap the deductible amount for defined benefit income streams at 10 per cent. Several submissions supported the proposal to improve consistency in treatment of different types of income.[51]

2.45 However, a number of submissions, particularly from pensioner and superannuants groups, opposed the change noting it would unfairly impact on those retirees who had made decisions based on the current rules. These submissions criticised the introduction of this measure without notice prior to the 2015–16 Budget, noting the government's pre-election commitment that there would no changes to superannuation during this term.[52] The Combined Pensioners and Superannuants Association (CPSA) also expressed concerns that:

> current retirees under this system will be negatively impacted and are not in a position to change their circumstances. They made retirement decisions (such as whether to receive an income stream or lump sum) based on the rules currently in place and are unable to reverse those decisions.[53]

2.46 The Tasmanian Association of State Superannuants (TASS) argued the Bill:

> unfairly targets defined benefit superannuants and is an unwarranted attack on modest pension incomes of older retiree's [sic] who compulsorily contributed to their own lifetime income stream.[54]

2.47 TASS noted the measures 'could have the unintended consequence of significant social welfare planning directed at more people choosing to take their superannuation as a lump sum rather than an income stream':

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50 *Submission 5*, p. 14.

51 See: *Submission 3*; *Submission 7*; *Submission 14*, p. 7; *Submission 15*, p. 6.

52 Mr Michael Conroy, *Submission 11*, p. 2; Tasmanian Association of State Superannuants, *Submission 10*, p. 3; UniSuper, *Submission 16*, p. 3.

53 Combined Pensioners and Superannuants Association NSW, *Submission 6*, p. 3.

54 *Submission 10*, p. 3.

> due to the limited time available since becoming aware of the measures contained in this Bill we have had insufficient opportunity to fully investigate its full impact and consequences.[55]

2.48 Mr Michael Conroy, a retired public servant and contributor to the NSW State Superannuation Scheme, noted a 10 per cent cap is 'arbitrary'. Mr Conroy estimated members of the NSW scheme have 'made personal contributions that justify a deductible amount of about 30 per cent of the income stream'.[56]

2.49 Mr Conroy raised further concerns about a news story that claimed the measure closes a loophole to a 'double-dipping rort' being exploited by 'thousands of retired public service fat cats'.[57] Quoting data from the department, Mr Conroy noted the average annual income drawn from defined benefit schemes is only $27 550, 20 per cent below the full married couple rate for the age pension.[58]

2.50 ISA raised concerns about the lack of evidence that :

> the application of this provision is well-targeted and will only affect those whose incomes would otherwise secure a comfortable standard of living.[59]

2.51 UniSuper, a superannuation fund dedicated to people working in higher education, expressed concerns the proposed changes would:

> affect members in receipt of non-commutable lifetime pensions, most of whom would not have the option to modify their drawdown from their superannuation income stream because, by definition, defined benefit pensions are fixed payments.[60]

2.52 UniSuper estimated 'up to two thirds' (or 4 600) of its defined benefit members with tax free amounts greater than 10 per cent would be affected by the measure, including those on moderate incomes. UniSuper recommended the committee consider a 35 per cent deductible amount for non-public sector defined benefit schemes.[61]

2.53 A number of submissions did not support the measure, but if passed, recommended the ten per cent cap be grandfathered.[62] ACPSRO noted the cap should be grandfathered to avoid causing hardship to some pensioners and should only apply:

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55 *Submission 10*, p. 2.

56 *Submission 11*, p. 2.

57 Simon Benson, 'Budget 2015: Public sector gravy train derailed by pension crackdown,' *Daily Telegraph*, 7 May 2015.

58 *Submission 11*, p. 3.

59 *Submission 9*, p. 18.

60 *Submission 16*, p. 3.

61 *Submission 16*, p. 5.

62 See: *Submission 10*; *Submission 11*; *Submission 12*.

> to those CSS and PSS and state government pensions that begin after 1 January 2016, if at all. Specifically, if the member dies and the revisionary pension goes to the surviving partner, then the cap should not be applied.[63]

2.54 The Police Federation of Australia (PFA) expressed concerns about the effect of the measure on serving and retired police on defined benefit schemes. The PFA noted there are 247 disability pensioners in Victoria with a deductible portion greater than 10 per cent that would be affected by the proposed change.[64] The PFA noted it 'seems particularly harsh to reduce the full or part pensions of disabled police officers' and recommended the committee consider:

> that police in defined benefit schemes be treated in exactly the same way as Australian Defence Force members on a 'military defined benefit income stream' as defined by the Bill so police schemes are not affected.[65]

2.55 The department noted the change intends to address an anomaly caused by income tax changes in 1998 and the 'Simpler Super' changes in 2007 to 'simply a complicated system of taxation for superannuation benefits' that resulted in a 'highly concessional income test deduction for some people'. The changes created an 'unintended outcome whereby the deductible amount used by the social security income test exceeded a person's own after-tax contributions for some defined benefits income streams'. The department noted this:

> resulted in a higher deductible amount, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient in terms of their contribution.[66]

2.56 The department noted the proposed change 'gives a fairer assessment of an individual's personal contributions to their defined benefit income stream'.[67]

2.57 The department noted the recommendation for grandfathering the ten per cent cap; however, it stated in its additional submission:

> the Simpler Super taxation changes in 2007 created an unintended change which increased the deductible amount in the income test treatment for some defined benefits income streams. The measure addresses this anomaly. Given this, it is not appropriate to grandfather the deductible amount for existing income support recipients who may have benefited from the anomaly.[68]

2.58 The department estimates approximately 47 700 (35 per cent) income support recipients with defined benefit streams would be impacted by the proposed changes. Of these, the department estimates:

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63 *Submission 12*, p. 2.

64 Police Federation of Australia, *Submission 2, Attachment 1*, p. 2.

65 *Submission 2*, pp 1–2.

66 *Submission 5*, p. 4.

67 *Submission 5*, p. 2.

68 *Submission 5.1*, p. 3.

- 46 000 recipients will receive a reduced pension allowance (average of $2 150 per year / $82.70 per fortnight); and
- 17 000 recipients would be cancelled.[69]

2.59 The department noted the measure will generate savings of $465.5 million over the forward estimates.[70]

Pension portability

2.60 Existing provisions in the age pension allow for pension recipients to receive the pension at the usual rate while outside Australia up to 26 weeks. This legislation reduces that period to six weeks, reflecting the community expectation that those who benefit from the Australian social security system have worked and lived in Australia in the long-term and will continue to be residents of Australia in their retirement.

2.61 A number of submissions expressed concerns that changes to pension portability would unfairly impact on Australians born overseas. Pension recipients who have worked in Australia for less than 35 years would have their benefits reduced according to the length of their working life residence if they travel outside of Australia for more than six weeks in a year, whereas pension recipients who were born in Australia or have worked in Australia for 35 years would not.[71]

2.62 The Federation of Ethnic Communities' Councils of Australia (FECCA) noted up to 40 per cent of pension recipients were born overseas and expressed concerns this change would:

> disadvantage a significant section of the Australian population who were born overseas and maintain important ties with the places of birth.[72]

2.63 Similarly, National Welfare Rights Network (NWRN) expressed opposition to the measure, noting pension recipients from culturally and linguistically diverse backgrounds are 'more likely to be adversely impacted by these changes' as they are more likely to have 'humanitarian and compassionate reasons for travel'.[73]

2.64 CPSA expressed opposition to any changes that would reduce the amount of time pension recipients could spend outside of Australia, and noted the change:

> will not achieve [sic] large saving but will be detrimental to pensioners who need to spend time outside of Australia.[74]

2.65 COTA expressed opposition to the measure and noted 'it is not unreasonable that an age pensioner with close family overseas should spend an extended period of

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69 *Submission 5*, p. 3.

70 *Submission 5*, p. 3.

71 See: *Submission 1*, p. 1; *Submission 6*; *Submission 7*; *Submission 9*, p. 19; *Submission 15*, p. 7.

72 Federation of Ethnic Communities' Councils of Australia (FECCA), *Submission 1*, p. 1.

73 *Submission 7*, p. 5.

74 *Submission 6*, p. 3.

time with them'. COTA recommended the measure be withdrawn 'until the government has consulted on an appropriate and fair limit'.[75]

2.66 In its submission, the department noted the measures would 'reinforce and strengthen the residence-based nature of Australia's social security system'.[76] The committee further notes that the proposed measure only applies to those born overseas and only those who have worked in Australia less than 35 years and that there will be transitional provisions for current pensioners. The department also noted the measure 'does not affect the length of the portability period, which continues to be unlimited'.[77]

Abolition of the seniors supplement

2.67 A small number of submissions supported the abolition of the seniors supplement. ACOSS expressed strong support for the measure and noted the supplement:

> is a cash payment available to many retirees who are too wealthy to receive a pension. It also extends to many people with high superannuation incomes since the income test for existing Supplement recipients is based on taxable income, and as such does not include tax-free superannuation benefits.[78]

2.68 COTA noted the seniors supplement 'has been a poorly targeted payment' and recognised 'those effected [sic] by the removal of the Seniors Supplement will generally be able to manage without it'. However, COTA also noted these changes 'bring instability, uncertainty and worry into the lives of many individual older Australians, and add further complexity and stress into the financial planning of many nearing retirement'.[79]

2.69 UnitingCare raised concerns about the evidence base for ceasing payment of the seniors supplement to holders of the Commonwealth Seniors Health Card and the Veterans Affairs Gold Card. UnitingCare noted it has collected evidence that suggests an increasing number of households are experiencing financial stress when it comes to paying bills and that 'the supplement is working' to help ensure low income retirees are able to pay their bills. UnitingCare expressed concerns:

> [R]emoving the supplement may lower this capacity, and increase the number who pay bills late, and may become at risk of disconnection from essential services.[80]

2.70 The department noted in its submission providing cash payments to self-funded retirees (concession card holders who are not eligible for the pension) is 'inconsistent with a social security system designed to assist those with less capacity

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75 *Submission 14*, p. 6.

76 *Submission 5*, p. 5.

77 *Submission 5*, p. 5.

78 *Submission 15*, p. 7.

79 *Submission 14*, p. 6.

80 *Submission 3*, pp 2–3.

for self-support'.[81] The committee notes the bipartisan agreement on the abolition of the seniors supplement in a budgetary context where 'tough decisions need to be made'.[82]

2.71 The proposed change will impact on approximately 308 000 concession card holders, while pension recipients will not be affected and will continue to receive the pension supplement. The department noted payment of the seniors supplement to concession card holders costs approximately $60 million each quarter or over $1 billion over the forward estimates.[83]

Abolition of education supplements and education entry payment

2.72 Several submissions raised concerns about ceasing payment of the education supplement and education entry payments. UnitingCare questioned the evidence base for ceasing the payments and asked:

> what evidence does the government have that these were not effective measures for assisting vulnerable Australians into study and then employment?[84]

2.73 Likewise ACOSS raised concerns about the measures, noting:

> [M]any people, especially sole parents, reply on the Pensioner Education Supplement and Education Entry Payment to help meet the costs of study. Further education and skills development improves work prospects, enabling people to rely less on income support in the future.[85]

2.74 National Disability Services (NDS) noted removal of the payments will particularly affect people with disability by reducing 'the capacity and incentive for some people with disability and some carers to undertake study'.[86] NDS recommended the payments be retained for people receiving a disability pension or carer payment, as they are not likely to be eligible for other available study assistance schemes, including job seeker support funds, HECS-HELP or Austudy.[87]

2.75 COTA noted it did not support the abolition of the payments on the grounds that older Australians face discrimination and other barriers to maintaining jobs and in regaining employment after losing a job.[88]

2.76 The department noted eligible support recipients:

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81 *Submission 5*, p. 15.

82 The Hon. Jenny Macklin MP, Shadow Minister for Families and Payments and Disability Reform, *House of Representatives Hansard*, 17 June 2015, p. 98.

83 *Submission 5*, p. 15.

84 *Submission 3*, p. 3.

85 *Submission 15*, p. 7.

86 National Disability Services, *Submission 4*, p. 1.

87 *Submission 4*, p. 3.

88 *Submission 14*, p. 7.

> will still have access to government-funded study and training assistance through employment service providers and the HECS-HELP, FEE HELP and VET FEE HELP tuition loan programs. Eligible students will also continue to be able to access student payments, such as Youth Allowance (student) and Austudy.[89]

2.77 The department noted ceasing the education supplement and education entry payments would save $252.4 million and $64.4 million respectively over the forward estimates.[90]

Committee view

2.78 The committee acknowledges the concerns raised about the changes to the pension asset test and taper rate, particularly that the changes may create a disincentive to save or will cause retirees to draw down on their assets. The committee notes the objective of providing taxpayer funded incentives through the tax system for superannuation is that people draw down on those savings to ensure a good standard of living in retirement. The committee is satisfied retirees affected by the assets test changes could still support a significantly higher standard of living in retirement than the maximum rate of pension.

2.79 The committee also acknowledges the concerns raised about changes to the cap on defined benefit income schemes. The committee recognises this change will fix an unintended anomaly caused by past income tax changes and will result in a fairer assessment of an individual's contributions to their defined benefit income stream.

2.80 The committee acknowledges the potential impact of changes to pension portability on pensioners who were born overseas. However, the committee supports that the measure reinforces the residence-based nature of Australia's pension system.

2.81 The committee acknowledges the small number of submissions that raised concerns about abolishing the seniors supplement, education supplement and education entry payment. The committee notes these payments were poorly targeted and is satisfied other supports remain available to assist low income pension recipients and those seeking to undertake further education.

Recommendation 1

2.82 The committee recommends that the Bill be passed.

Senator Zed Seselja

Chair

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89 *Submission 5*, p. 16.

90 *Submission 5*, pp 16–17.