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Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009

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Contents

Glossary

Abbreviation	Definition
ACA	*Aged Care Act 1997*
ABS	Australian Bureau of Statistics
CSHC	Commonwealth Seniors Health Card
CPI	Consumer Price Index
DSP	Disability Support Pension
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FAMT	Family Actual Means Test
FTB–A	Family Tax Benefit Part A
GST	Goods and Services Tax
HCC	Health Care Card
MTAWE	Male Total Average Weekly Earnings
NSA	Newstart Allowance
PP	Parenting Payment
PBS	Pension Bonus Scheme
PBLCI	Pensioner and Beneficiary Living Cost Index
PCC	Pensioner Concession Card
PhA	Pharmaceutical Allowance
PhBS	Pharmaceutical Benefits Scheme
SSA	*Social Security Act 1991*
TA	Telephone Allowance
UA	Utilities Allowance
VEA	*Veterans' Entitlements Act 1986*

Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009

Date introduced: 15 June 2009

House: House of Representatives

Portfolio: Families, Housing, Community Services and Indigenous Affairs

Commencement: various dates in 2009 and 2010. For full details see the table in Item 2 of the Bill.

Links: The *relevant links* to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at http://www.aph.gov.au/bills/. When Bills have been passed they can be found at ComLaw, which is at http://www.comlaw.gov.au/.

Purpose

To amend legislation required to implement the "Secure and Sustainable Pension Reform" package announced in the 2009-10 Budget. The main elements in the Bill are:

- increased pension rates,
- indexation and benchmarking changes,
- pensioner and seniors supplements,
- changes to the pension income test,
- changes to the Age Pension age,
- changes to pension advance payments,
- changes to the proportion of the pension paid to aged care providers, and
- changes to the benchmarking of family assistance payments.

Background

The Government presented several substantive reforms to the provision of income support to the retired aged (the Age Pension) and most other pension payment recipients in the 2009–10 Budget under the heading of 'Secure and Sustainable Pensions'.[1] These proposed measures are:

- a one-off increase in the single rate of pension of $30 a week. The increase will apply to the Age Pension, Disability Support Pension (DSP), Service Pension, Carer Payment, Wife Pension, Widow B Pension and Income Support Supplement. The increase is not to be provided to Parenting Payment – Single (PPS) recipients,
- a new Pension Supplement which replaces the current Utilities Allowance,[2] Pharmaceutical Allowance (PhA),[3] Telephone Allowance[4] and the Goods and Services Tax (GST) pension supplement.[5] The proposed new Pension Supplement is to also be paid to recipients of Widow Allowance, Partner Allowance and other income support payment recipients who are over Age Pension age,
- an increase in the pension income test taper rate, for income in excess of the income test free area, from 40 cents in the dollar to 50 cents in the dollar,

1. Australian Government, *Budget measures: budget paper no. 2: 2009-10*, Commonwealth of Australia, pp. 240-247, viewed 18 June 2009, http://www.aph.gov.au/budget/2009-10/content/bp2/html/index.htm

2. Utilities Allowance is paid quarterly to a person on a qualifying income support payment being Age Pension, Disability Support Pension, Carer Payment, Partner Allowance, Wife Pension, Widow B Pension, Bereavement Allowance or Widow Allowance. From March 2009 Utilities Allowance is $259.40 per member of a couple and $518.80 for a single annually.

3. Pharmaceutical Allowance (PhA) is paid fortnightly to a pension payment recipient, or an income support allowance payment recipient during a period of temporary illness or is aged 60 or more. From March 2009 PhA is $3.00 per week for a single or $3.00 per week for a couple combined.

4. Telephone Allowance is payable to a holder of a Pensioner Concession Card or a Commonwealth Seniors Health Card. From March 2009 the quarterly rates of Telephone Allowance are $23.00 single or $11.50 partnered each. A higher rate of $34.60 single or $17.30 partnered each is payable where the recipient has an Internet connection.

5. The pension GST supplement was introduced as part of the 1 July 2000 Tax Reform Package. It was based upon 4% of the then value of the basic rate of pension. After a deal with the Democrats, it was aimed at ensuring pensioners were not disadvantaged by the price increases resulting from the GST. The GST supplement is indexed to the CPI. From March 2009 the GST pension supplement is $19.50 single or $16.30 partnered each.

- a new income test treatment of earned income from employment. Only half of the first $500 of fortnightly employment income will be included in the income test. Pensioners can get a maximum benefit of $125 per fortnight under this Work Bonus,
- the closure of the Pension Bonus Scheme (PBS),
- the upgrading of the indexation requirements for the pension from the current 25 per cent of Male Total Average Weekly Earnings (MTAWE) to 27.7 per cent of MTAWE,
- an increase in the qualification age for the Age Pension from age 65 to age 67 to be phased in from 2017 to 2023,
- revised pension lump-sum advance payment arrangements allowing higher lump-sum payments amounts and more than one advance in a year,
- a new seniors supplement payment for recipients of a Commonwealth Seniors Health Card (CSHC)[6] or Gold Card combining both the current Seniors Concession Allowance[7] and the Telephone Allowance, and
- the development of the Pensioner and Beneficiary Living Cost Index (PBLCI).[8]

Harmer review of pensions

There has been public agitation for increases in the rate of the pension, especially for age pensioners, for some time. The Government announced a general review of the tax system on 13 May 2008.[9] As part of the review, the Minister for Families, Housing, Community Services and Indigenous Affairs, Jenny Macklin, announced that the Secretary of her portfolio department, Dr Jeff Harmer, would undertake a review of the pension system. The Pension Review (Harmer Review) undertook an investigation into measures to strengthen the financial security of seniors, carers and people with disabilities.

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6. The CSHC is issued to persons over Age Pension age with annual adjusted taxable incomes of less than $50,000 single or $80,000 combined.

7. The SCAV SCA is payable to a holder of a CSHC. The annual rate of SCA at 20 September 2008 is $514.00 per year paid quarterly.

8. W Swan (Treasurer) and J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Secure and Sustainable Pension Reform: A pension that keeps up with the cost of living*, media release, Canberra, 16 June 2009, viewed 21 May 2009, http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/pension_cost_living_12may2009.htm

9. W Swan (Treasurer), *Australia's future tax system,* media release, Canberra, 13 May 2008, viewed 16 June 2009, http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/036.htm&pageID=003&min=wms&Year=2008&DocType=0

The Government released the findings of the Harmer Review on 12 May 2009.[10] The key findings of the Harmer Review addressed through the pension reforms announced in the 2009–10 Budget are:

- Single full rate pensioners should be a priority. The existing single rate of pension does not adequately recognise the costs for those wholly reliant on the pension to support themselves,
- The relativity of the rate of pension for singles to that of couples is too low and should be in the range of 64 to 67 per cent. Currently the single rate is around 60 per cent of the combined coupled rate,
- The payment of existing supplements and allowances could be simplified by integrating them into either a pension supplement or the base rate,
- Pension payments should be tied to changes in the actual cost of living faced by pensioners, and
- There is scope to target pension increases to those who have little or no private means.

Schedule 1–Single pension rate increase

Since the early 1970s, the single rate of pension has been maintained at about 25 per cent of MTAWE. This was achieved until 1997 by occasional increases in the rate above the usual indexation to movements in the Consumer Price Index (CPI). From 1997 the 25 per cent benchmark has been included in the indexation provisions of the *Social Security Act 1991* (SSA).

In 2000 the single pension rate was maintained at the 25 per cent benchmark, but a Goods and Services Tax (GST) supplement was introduced to compensate for the impact of the GST on the purchasing power of the pension. Since that time the single pension rate (including the GST supplement) has generally been around 25.5 per cent of MTAWE. The GST supplement was relatively invisible to pensioners as part of the pension rate they received.

The Bill will increase the rate of the single pension by $30 per week. This will result in the rate being equivalent to 27.7 per cent of MTAWE. The GST supplement will still be paid over and above that new rate but will form part of a new Pension Supplement that will consolidate a number of other small payments provided to pensioners (see Schedule 4 below).

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10. Australian Government, *Tax review report on the retirement income system,* Commonwealth of Australia, Canberra, 12 May 2009, viewed 16 June 2009, http://www.fahcsia.gov.au/about/publicationsarticles/corp/budgetpaes/budget09_10/pension/pages/pensionreviewreport.aspx

Schedule 2–Indexation using the Pensioner and Beneficiary Living Cost Index

Current pension indexation arrangements

At present, the rate of pension is indexed twice a year to movements in the Consumer Price Index (CPI) and also to 25 per cent of MTAWE. Whichever indexation factor realises the greater increase is the factor used. This indexation occurs twice a year – 20 March and 20 September. Virtually all of the increases in the rate of the pension since it was legislated for from September 1997, have been due to the 25 per cent of MTAWE factor, not the CPI factor. This has not been the case more recently when it has been the CPI factor that has realised the rate increase.

Concerns about the use of the CPI indexation

There have been concerns expressed over many years that the indexation to the CPI does not reflect the real cost increases experienced by pensioners, especially age pensioners. The current policy of the Australian Pensioners and Superannuants Federation includes:

> 1.1.6 The Consumer Price Index should be monitored to ensure that its use for the purposes of indexing the pension remains the most accurate measure of the cost of living.
>
> 1.1.7 APSF calls on the Federal Government to ensure that older people are not disadvantaged financially by changes to the compilation of the Consumer Price Index.[11]

Pensioner and Beneficiary Living Cost Index announced in the 2009-10 Budget

The establishment of a new and extra indexation factor for the pension rates, the PBLCI, was announced in the Budget.[12] The origins of this is the long-standing claim that the basket of goods used for the CPI is not representative of the cost incurred by aged pensioners.

It will be interesting to see whether such a pensioner/beneficiary specific price index will realise a different factor for indexation. The Australian Bureau of Statistics (ABS) has in the past constructed and comparatively tested several population sub-group specific

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11. Australian Pensioners and Superannuants Federation Inc, *current policies*, Sydney, 2009, viewed 19 June 2009, http://www.apsf.asn.au/apsf/

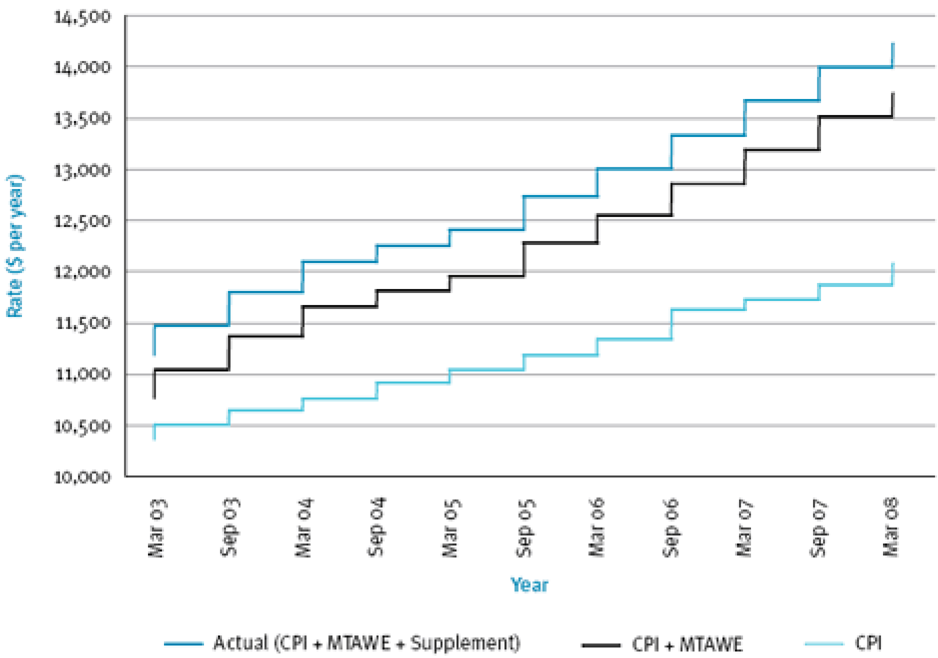
12. W Swan (Treasurer) and J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Secure and Sustainable Pension Reform: A pension that keeps up with the cost of living.*

indices, the earliest going back to 1981 and latest covering the period 1998 to 2005.[13] All of this work has shown that these specific indices (and there is one for aged pensioners) are changing at virtually the same rate as the overall CPI. Using the latest example, over the period June 1998 to June 2005, the ABS' aged pension household specific index rose by 23 per cent while the All Groups CPI rose by 22.6 per cent. What this means is that the basket of goods and services that aged pensioners are buying rises in price (inflates) at around the same rate as the basket of goods used to calculate the All Groups CPI.

Have aged pensioners been disadvantaged by current indexation?

The establishment of an extra indexation factor, the proposed PBLCI, implies that the concerns that pensioners have been disadvantaged by the current indexation rates have some validity. Set out below is a table which shows the single rate of pension increases compared to the CPI alone and CPI and MTAWE alone against the actual rate increases from March 2003 to March 2008.

Increases to the single pension rate under actual and alternative scenarios, March 2003 to March 2008



Note: From July 2000, to compensate pensioners for the impact of the Goods and Services Tax, the maximum rate of pension increased by four per cent (half of which was a payment in advance of the normal March 2001 indexation increase). This

13. Australian Bureau of Statistics (ABS), *Analytical Living Cost Indexes for Selected Australian Household Types*: Update to June 2005, cat. no. 1350.0, ABS, Canberra, 31 August 2005.

> increase is known as the Pension Supplement. It increases in line with CPI and is paid in addition to the base rate of pension that is set to at least 25 per cent of MTAWE.[14]

As stated above, virtually all of the increases in the rate of the pension, since it was legislated for from September 1997, have been due to the 25 per cent of MTAWE factor, rather than the CPI factor. The ABS experience suggests that the adoption of a PBLCI may not realise any indexation increases than would otherwise be provided by the current arrangements.

Schedule 3–New Male Total Average Weekly Earnings benchmarks

The current pension rate adequacy benchmark of 25 per cent of MTAWE has been included in the indexation provisions of the SSA since 1997. Now that the single rate of the pension is to be increased by $30 per week and the relativities between the single and partnered rates are to change, the adequacy benchmark must also change. The benchmark for the combined payment for a couple will be 41.76 per cent of MTAWE and for a single person it will be 27.7 per cent. These new benchmarks ensure that the single rate will be 66.33 per cent of the combined couple rate. This new relationship between the single and couple rates reflects the recommendation of the Harmer Review.

Schedule 4–The pension supplement

Currently pensioners receive a range of add on payments on top of the basic pension rate. These add ons have slowly accumulated over the last few decades to the point where they now jointly provide a significant part of the package of assistance for pensioners. They are:

- Telephone Allowance (TA) was introduced in July 1992 as a quarterly cash payment for pensioners with a telephone account. It replaced an earlier rebate on telephone rental charges introduced in October 1964. By 2009 TA was worth $92 per annum or $138.40 per annum for those with an internet connection. It has also been paid to self-funded retirees who hold a CSHC from September 2001.
- Pharmaceutical Allowance (PhA) was introduced in October 1990 when access to free pharmaceuticals for Pensioner Concession Card holders was replaced by pharmaceuticals at a concessional rate. Once expenditure per family reached a safety net amount per annum there was no charge for additional items. PhA was introduced as a fortnightly payment to compensate pensioners for their reduced entitlements to free pharmaceuticals. PhA is currently worth $156 per annum for single pensioners and $78 per annum for a partnered pensioner.

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14. Families, Housing, Community Services and Indigenous Affairs, *annual report 2007-08*, Canberra 2008, viewed 19 June 2009, http://www.facs.gov.au/about/publicationsarticles/corp/Documents/2008%20Annual%20Report/default.htm

- Pension supplement (often referred to recently as the GST supplement) was introduced in July 2000 to compensate for the impact of the Goods and Services Tax (GST) on the purchasing power of the pension. It was structured as a supplement so as to ensure that the value of the compensation for the GST was always preserved as an amount additional to the pension rate which was benchmarked to 25 per cent of MTAWE.
- Utilities Allowance (UA) was introduced in December 2004 as a twice yearly payment to assist with utility bills. UA was matched by another payment for self-funded retirees called Senior Concession Allowance. UA is now worth $518.80 per annum for a single person and $259.40 for a partnered person.

Separate to the one-off increase of $30 per week to the single rate of pension, the proposed Pension Supplement will increase the single rate by $2.49 per week and $10.14 per week for couples (combined). The Pension Supplement will be worth about $1,462.70 per annum for a single person and about $2,199.60 per annum for a couple depending on the exact amount of the indexation increase in September 2009. It will be paid fortnightly with an option for part to be paid quarterly from July 2010 if pensioners choose.

Self-funded retirees will also receive a Seniors Supplement which combines their existing entitlement to Telephone Allowance and Seniors Concession Allowance. The single rate will be increased to bring it to 66.33 per cent of the couple rate. The supplement will be worth about $790.40 per annum for a single person and about $1,190.80 per annum for a couple, depending on the exact amount of the indexation increase in September 2009.

Schedule 6–Income tests

The basic structure of the pension income test in broadly its present form has been in place since 1976. The assets test was added in 1985 and deeming was introduced in 1996. However the current taper rate of 40 per cent was only introduced in 2000 as part of a package of measures to compensate for the impact of the GST on the purchasing power of the pension. Prior to that a 50 per cent taper rate had been in place since 1969 when the Gorton Government introduced the "tapered means test". Before then, pensioners lost pension on a dollar for dollar basis when their assessed means exceeded $520 per annum. Assessed means included a deemed income from assets. So effectively the taper was 100 per cent.

The shift to a 40 per cent taper in 2000 had the effect of diluting the safety net aspect of the pension. Currently, a single person can receive a part-rate pension with a private income of up to around $41 000 per annum. For couples this figure is about $68 500 per annum. The estimated pension cut off points in September 2009 with a 40 per cent taper would have been $47 444 for single people and $72 423 for couples. With a 50 per cent taper these levels will drop to $38 693 for a single person and $59 228 for a couple.[15]

The stated objective behind the change to a 50 per cent taper in this Bill in the second reading speech is:

> As part of the secure and sustainable pension reform package, the pension income test will be tightened. This will help ensure the pension system is sustainable in the longer term, and that increases can be targeted to those most in need.[16]

The taper change, combined with the rate increase ensures that most assistance is directed to those pensioners with the least private income.

Schedule 7–Work bonus

Currently less than 5 per cent of age pensioners have earnings from employment.[17] The work bonus is a measure to encourage continued workforce attachment in the early years of retirement. With the closure of the PBS and the move from a 40 per cent to a 50 per cent taper rate under the income test, a measure such as this to improve return from employment is necessary to counteract the reduction of the incentives for continued employment brought about by those changes.

Schedule 9–Pension Bonus Scheme

The proposal to close the PBS was announced in the 2009-10 Budget.[18]

Cost

The closure of the PBS is estimated to cost $7.1 million in 2009-10 and $5.1 million in 20010-11 and then realise savings of $15.6 million in 2011-12 and $54.5 million in 20012-13.[19] This is net savings of $57.9 million over four years.

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15. J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs) and W Swan (Treasurer), *Secure and Sustainable Pension Reform: Better targeting of the pension*, media release, 12 May 2009, viewed 22 June 2009, http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/targeting_pension_12may2009.htm

16. Second Reading Speech, p.2, viewed on 22 June 2009, http://parlinfo/parlInfo/genpdf/chamber/hansardr/2009-06-15/0011/hansard_frag.pdf;fileType=application%2Fpdf

17. J Harmer, *Pension Review: Background Paper*, Department of Families, Housing, Community Services and Indigenous Affairs, Canberra, august 2008, p. 48.

18. Australian Government, *Budget measures: budget paper no. 2: 2009-10*, Commonwealth of Australia, pp. 240, viewed 18 June 2009, http://www.aph.gov.au/budget/2009-10/content/bp2/html/index.htm

Origins of the Pension Bonus Scheme

The PBS was announced in the 1997-98 Budget.[20] It was then estimated an average of 35 000 people a year would participate in the scheme during its first 3 years of operation.

Purpose of the Pension Bonus Scheme

The purpose of the PBS was to offer a positive incentive to persons to extend their working life, to encourage greater self-provision, to promote continued participation in the workforce and also to achieve some Budget savings.[21]

Pension Bonus Scheme Qualification

When a person turns Age Pension age, they can claim to defer receiving payment of the Age Pension and later on be paid a bonus if they:

- continue to work past the date they meet age and residence requirements for Age Pension,
- have registered as a member of the PBS, and
- meet a flexible work test with a minimum of 960 hours for at least one year after registration.

Pension Bonus Scheme period

Once a member of the PBS, a person can 'accrue' bonus periods until they reach age 75, as long as they:

- continue to meet the work test, and
- do not meet any non-accruing membership criteria.

Pension Bonus Scheme amounts

The bonus is a multiple of 9.4 per cent of the claimant’s basic Age Pension for each 'accruing' bonus period. The bonus is paid as a non-taxable lump-sum once the claimant claims payment of their Age Pension.

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19. Explanatory memorandum, Financial impact statement.
20. Australian Government, portfolio budget statements 1997-98, *budget related paper no. 1.14: Social Security portfolio,* Commonwealth of Australia, Canberra, 1997, p. 57.
21. Australian Government, portfolio budget statements 1997-98, *budget related paper no. 1.14: Social Security portfolio*.

Maximum amount of Pension Bonus payable

Bonus years	Single	Partnered (each)
1 year	$1,392.60	$1,163.10
2 years	$5,570.40	$4,652.40
3 years	$12,533.30	$10,467.90
4 years	$22,281.50	$18,609.60
5 years	$34,814.80	$29,077.50

Payment rates appear as a guide only and are effective from 20 March 2009.

The amount of bonus a person gets depends on:

- the amount of basic Age Pension the claimant is entitled to when they claim it after they leave the workforce,
- the length of time the claimant has been an accruing member of the PBS, and
- whether they are single or have a partner during the time they deferred their Age Pension.

Pension Bonus Scheme take up

About 8000 to 9000 Age Pension claimants were registered for the PBS in 2006. The PBS bonuses paid have been 1365 in 1999-00, 3007 in 2000-01, 4535 in 2001-02, 5646 in 2002-03, 7407 in 2003-04 and 5689 in 2004-05.[22] This is certainly not the anticipated 35 000 a year originally envisioned when the PBS was introduced.

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22. Senate Community Affairs Committee, Answers to Questions on Notice, Human Services Portfolio, Additional Estimates 2004-05, 15 February 2005, Question HS48, viewed 19 June 2009, http://parlinfo/parlInfo/search/summary/summary.w3p;adv=yes;group=;orderBy=customrank;page=2;query=Content%3A%22pension%20bonus%20scheme%22%20Dataset%3AcomSen;querytype=;resCount=Default

Comment

Certainly the numbers of persons accessing the PBS have not been as originally anticipated. Those able to access the PBS are those with significant on-going work capability past Age Pension age and therefore those with greater access to other income sources than many other Age Pension claimants who are not able to access employment income. The other measure in Schedule 7 of the Bill – the Work Bonus, which is to apply a new and different income test in respect of employment income, will still encourage employment and self-support beyond Age Pension age. The Work Bonus will allow half of employment income earned up to $500 a fortnight to be disregarded under the income test.

Schedule 10 – Transitional arrangements

The increase in the income test taper rate from 40 per cent to 50 per cent necessitates the inclusion in the Bill of arrangements to ensure that existing part-rate pensioners do not suffer a rate reduction. Part-rate pensioners will only be subjected to the new taper rate (50 per cent) only when their pension rate is higher than their rate under the current 40 per cent taper. This is achieved by the fact that with indexation, over time the pension rate increases and eventually the increased rate overcomes the proposed new higher taper rate (50 per cent). The proposed new 50 per cent taper rate on the income test will not be applied to a person until their pension calculated under the current arrangements (40 oper cent taper) and the current maximum rates exceeds the new pension rate calculation (50 per cent taper) plus $10.10 per fortnight for a single person and $5.05 per fortnight for a partnered person.

This is quite generous and probably included so part-rate pensioners are not disadvantaged by the increased 50 per cent taper rate.

Schedule 11 - Qualifying age for the age pension

In the 2009-10 Budget, the government announced its intention to increase the qualifying age for the age pension for men and women from age 65 to age 67, to be phased in from 2017 to 2023.

The Minister for Families, Housing, Community Services and Indigenous Affairs, Jenny Macklin, has described this change as ensuring that the age pension age reflects 'the significant improvements in life expectancy that have occurred since the age pension was first introduced in 1909'.[23] The age pension qualifying age has been 65 since its inception

23. J. Macklin, 'Second reading speech: Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009, House, *Debates*, 15 June 2009, p. 3.

in 1909.[24] Life expectancy at birth in 1901–10 for males was 55.2 years; and for females, 58.8 years.[25] Life expectancy at birth in 2005–07 was for males, 79 years; and for females, 83.7 years.[26]

Table 1 below outlines how the proposed Australian changes will affect different age groups.

Table 1: Proposed increase in the age pension age in Australia: who will be affected[27]

Date	New age pension age	Affects people born	When group reaches new age pension age
1 July 2017	65 years & 6 months	1 July 1952 to 31 December 1953	1 January 2018 to 30 June 2019
1 July 2019	66 years	1 January 1954 to 30 June 1955	1 January 2020 to 30 June 2021
1 July 2021	66 years & 6 months	1 July 1955 to 31 December 1956	1 January 2022 to 30 June 2023
1 July 2023	67 years	From 1 January 1957	From 1 January 2024

The main rationale for this change appears to relate to the objective of securing the long-term sustainability of the age pension.[28] According to the Minister, it 'will allow the government to respond to the long-term cost of our demographic challenges'.[29]

24. In 1909 the qualifying age for the age pension was 65 for both men *and* women but was reduced to age 60 for women in 1910. The qualifying age for women has been incrementally raised from age 60 to 65 and this will be completed in 2014.

25. Australian Bureau of Statistics (ABS), *Australian Historical Population Statistics, 2008, cat. no. 3105.0.65.001*, ABS, Canberra, 2008, viewed 20 May 2009, http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3105.0.65.0012008?OpenDocument

26. Australian Bureau of Statistics (ABS), *Deaths, Australia, 2007, cat. no. 3302*, ABS, Canberra, 2008, viewed 20 May 2009, http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/C67A858BA00CB846CA2568A9001393C6?OpenDocument

27. Source: J Macklin, (Minister for Families Housing, Community Services and Indigenous Affairs), *Secure and sustainable pension reform: Age Pension age*, media release, Canberra, 12 May 2009, viewed on 21 May 2009, http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/age_pension_12may2009.htm

28. J. Macklin, Second reading speech, p. 1.

29. J. Macklin, Second reading speech, p. 3.

As can be seen from the following table (based on ABS projections), the percentage of the population aged 65 years and over will increase substantially over the next century, almost doubling by 2056.[30]

Table 2: projected Australian population aged 65 years and over, 2007 to 2101

Year	Total population aged over 65	Proportion of population over 65
2007	2.8 million	13 per cent
2026	5.1 to 5.3 million	18 to 20 per cent
2056	7.8 to 10.4 million	23 to 25 per cent
2101	9.3 to 17.1 million	25 to 28 per cent

As noted by the ABS, 'among other considerations such as health and housing services, growth in this age group has particular implications for retirement income planning'.[31]

In response to similar demographic pressures, other countries have recently announced increases in their age pension qualifying age. In the United Kingdom (UK), the Parliament is currently debating pension reforms presented in a 2006 White Paper. Reforms include taking into account increasing longevity and encouraging extended working lives. It is proposed that the State Pension age will rise gradually from age 65 (men and women) to age 68 by 2044. In the United States the qualifying age is being incrementally raised to age 67 by 2027. In Germany, between 2012 and 2029, the normal pensionable age will rise from age 65 to age 67 with eligibility requiring at least 5 years contributions from employment income into their personal pension fund amount. In Germany for persons born after 1964, the pensionable age is 67. From 2012, the full pension is payable at 65 with at least 45 years contributions to the individual's pension fund amount.

Discussion—responses to proposed change

There are mixed views on the idea of increasing the age pension qualifying age. On the one hand, both the Harmer Pension Review and the Henry review of *Australia's future tax system* recommended gradually increasing the Age Pension (respectively, by 2 to 4 years and 2 years).[32] Both the Harmer and Henry reviews also recommended bringing the

30. ABS, Population Projections, Australia, 2006 to 2101, p.46.

31. ABS, p. 47.

32. J. Harmer, *Pension review report*, Department of Families, Housing, Community Services and Indigenous Affairs, 27 February 2009, p. 146-7, viewed 22 June 2009,

preservation age for superannuation into alignment with the Age Pension age.[33] (Note that the government has since ruled out this option.)[34]

The opposition has indicated that they support the change, with the Shadow Minister for Families, Housing, Community Services and Indigenous Affairs, Tony Abbott, stating that 'a strong case can be made for raising the pension age'.[35] A range of other interest groups and commentators have also indicated that there is a reasonably strong rationale for increasing the age pension qualifying age. This includes National Seniors Australia, an organisation representing Australians aged 50 years and over, who has previously argued for the pension age to be raised gradually, potentially to 75 years by 2020.[36]

On the other hand, some other interest groups and commentators have raised concerns in relation to increasing the qualifying age for the pension age. These have included unions representing workers in physically demanding industries. The main concern raised in relation to the change is that some people are less able to continue working than others—either through incapacity (particularly those in manual occupations), caring responsibilities or lack of jobs for mature workers.[37] While some will be able to access DSP (paid at the same rate as the age pension), others may be forced to access Newstart (paid at a substantially lower rate than the pension).[38] Further, it has been argued that

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http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09_10/pension/Documents/Pension_Review_Report/PensionReviewReport.pdf; K. Henry, *The retirement income system: report on strategic issues*, Review panel Australia's future tax system, May 2009, p. 1, viewed 22 June 2009, http://taxreview.treasury.gov.au/content/downloads/retirement_income_report_stategic_issues/retirement_income_report_20090515.pdf

33. J. Harmer, Pension review, p. 147; K. Henry, Retirement income system, p. 1.

34. M. Grattan, 'Rudd rules out changes to super access', *Age*, 30 May 2009.

35. T. Abbott, 'Second reading speech: Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009, House, *Debates*, 16 June 2009, p 2.

36. P. Karvelas, *'Seniors want retirement at 75'*, Australian, 28 August 2008.

37. M. Franklin, *'Revolt by unions on work to 67',* Australian, 25 May 2009.

38. C. Martin (chief executive of Australian Council of Social Service (ACOSS)), *When raising retirement ages don't start with the poorest*, ABC radio, 16 June 2009, viewed 22 June 2009, http://www.abc.net.au/news/stories/2009/06/16/2599211.htm; COTA over 50s, *Submission to the Community Affairs Legislation Committee on the Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009*, p. 5, viewed 22 June 2009, http://www.aph.gov.au/Senate/committee/clac_ctte/social_security_pension_reform_09/submissions/sub02.pdf

forcing people to work longer before accessing the pension will actually add to the costs faced by governments and employers as a result of increased injuries and illness.[39]

Other arguments that have been raised against increased the age pension qualifying age both in Australia and overseas include:

- higher-income workers have a greater life expectancy than lower income workers, yet an increase in the retirement age would adversely affect low-income workers—that is, those who rely on the age pension the most[40]
- other options exist for addressing pressures on the retirement income associated with demographic change, including:
  - tailoring work and retirement policies to specific occupational groups—allowing manual workers to retire when they physically need to, while encouraging white collar professionals in areas of needed skills to remain in the workforce longer[41]
  - ensuring that there is a sufficient revenue source to meet the costs of an ageing population (through, for example, a redesigned Medicare Levy)[42]
  - as suggested by the Harmer and Henry reviews, bringing the preservation age for superannuation into alignment with the age pension age,[43]
- increased life expectancy should not be viewed in isolation—other factors have worked to offset the ageing of the population, such as increased labour force

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39. AAP, 'Pension age rise will cost money: unions', *the age.com.au*, 1 June 2009, viewed 22 June 2009, http://news.theage.com.au/breaking-news-national/pension-age-rise-will-cost-money-unions-20090601-brys.html

40. M. Morrissey and E. Garr, *Working the graveyard shift: why raising social security income age is not the answer*, EPI briefing paper No. 232, Economic Policy Institute, 5 May 2009, p. 3, viewed 22 June 2009, http://epi.3cdn.net/65bf2e24d59cf56166_dym6ive5s.pdf. According to a 2004 report, 'life expectancy for persons aged 65 was highest in the least disadvantaged areas (males 18.0 years, females 21.3 years) and lowest in the most disadvantaged areas (males 16.7 years, females 20.6 years)'. Queensland University of Technology and Australian Institute of Health and Welfare (AIHW), *Health inequalities in Australia: mortality*, AIHW, September 2004, p. 84, viewed 22 June 2009, http://www.aihw.gov.au/publications/phe/hiam/hiam.pdf

41. S. Lunn, 'Baby boomers ready to work longer', *Australian*, 1 June 2009.

42. ACOSS, Submission to the Taxation Review Panel, Adequate, fair, sustainable, and simple:

    retirement incomes reform, p. 6, February 2009, viewed 22 June 2009, http://www.acoss.org.au/upload/publications/submissions/5645__ACOSS%20Submission%20-%20retirement%20incomes09-final.pdf

43. C. Martin, Don't start with the poorest;

participation by women, longer working hours and the tendency towards later retirement.[44]

Notwithstanding the merits of some or all of the concerns raised above, it may be that the significant increase in life expectancy over the previous century means there remains a reasonably strong case to increase the qualifying age for the Age Pension. Nevertheless, concerns raised by critics of the change highlight a number of important issues, including the fairness of retirement policy (including retirement incomes policy), broader income support policy and issues related to mature age employment. Indeed, as COTA over 50s, an organisation representing Australia's seniors, argued in its submission to the Community Affairs Legislation Committee inquiry into this bill, 'COTA support for increasing the pension age depends on government redoubling efforts to address mature age unemployment and age discrimination in the workforce, and introducing measures to address unemployment among mature age workers'.[45]

Schedule 13–Commonwealth Seniors Health Card

The Government announced a modification to the proposals to amend the income test applied for the CSHC in the 2009-10 Budget.[46] This proposal is a modification of an original proposal to modify the CSHC income test presented in the 2008-09 Budget.[47] In the 2008-09 Budget proposal, the Government proposed to modify the CSHC income test by adding two new elements to the definition of adjusted taxable income.

The two extra elements then proposed to be added back into adjusted taxable income were:

- employment income salary sacrificed into superannuation, and
- superannuation amounts received from a private taxed superannuation source.

The legislation that presented this amendment to the SSA was the *Social Security and Veterans' Entitlements Amendment (Commonwealth Seniors Health Card) Bill 2009*.[48]

44. M. Morrisey and E. Garr, Graveyard shift, pp. 2-3.

45. COTA over 50s, Submission, p. 5.

46. Australian Government, *Budget measures: budget paper no. 2: 2009-10*, Commonwealth of Australia, p. 226, viewed 18 June 2009, http://www.aph.gov.au/budget/2009-10/content/bp2/html/index.htm

47. Australian Government, *Budget measures: budget paper no. 2:2008-09*, Commonwealth of Australia, pp. 381-382, viewed 19 June 2009, http://www.budget.gov.au/2008-09/content/bp2/html/index.htm

48. P Yeend, *Social Security and Veterans' Entitlements Amendment (Commonwealth Seniors Health Card) Bill 2009*, Bills digest, no. 99, 2008-09, Parliamentary Library, Canberra, 24 February 2009, viewed 19 June 2009, http://www.aph.gov.au/library/pubs/bd/2008-09/09bd099.htm#Contact

This Bill was passed by the House of Representatives on 17 March 2009. The Bill was debated in the Senate, with the last day of the second reading debate on 20 March 2003. However, the Bill was discharged from the Senate notice paper on 17 June 2009.

The modified proposal to the definition of income for the CSHC income test presented in Schedule 13 of this Bill is to only add back into adjusted taxable income amounts of employment income salary sacrificed into superannuation. Perhaps the Government considers this 'watered down' modification to the CSHC adjusted taxable income test will be more palatable to the non-government parties in the Parliament?

Cost

The estimated savings for Schedule 13 presented with this Bill are $9.6 million in 2009-10, $11.4 million in 2010-11 and $13.3 million in 2011-12 and $14.2 million in 2012-13. This is a total of $48.5 million over four years.[49]

Commonwealth Seniors Health Card

Qualification

The CSHC is available to persons over Age Pension (AP) age[50] who are not in receipt of an income support payment and whose adjusted taxable income is below certain limits. The main income support payments for persons over Age Pension age are the Age Pension, Age Service Pension and Partner Service Pension. Persons over Age Pension age may also be in receipt of DSP or Special Benefit, in cases where they do not meet the 10 year residence requirement for the Age Pension.

Income test limits

The current yearly income test limits for the CSHC are:

- Single $50 000

49. Explanatory Memorandum, *Financial impact statement*.
50. The age pension age for males is age 65. Pension age for females is being raised by six months every two years so that by 1 January 2014, female and male pension ages will be age 65. The table below show when females qualify.

Date of Birth	Qualifying age
Before 30 June 1944	63 yrs
Between 1 July 1944 to 31 Dec 1945	63.5 yrs
Between 1 Jan 1946 to 30 June 1947	64 yrs
Between 1 July 1947 to 31 Dec 1948	64.5 yrs
After 1 Jan 1949	65 yrs

- Partnered (combined) $80 000

The income limits for the CSHC are not indexed in any way and are only increased when a government sees the need to do so.

Definition of income

The current income test for the CSHC uses 'adjusted taxable income', which refers to net taxable income with three additional elements:

- foreign income,
- certain employer-provided fringe benefits, and
- the value of net rental property losses.

Benefits

The CSHC provides access to concessional pharmaceuticals under the Pharmaceutical Benefits Scheme (PhBS). The CSHC may also provide:

- Bulk-billed GP appointments. This is at the discretion of the general practitioner but the Commonwealth government provides financial incentives for doctors to bulk-bill concession card holders,
- A reduction in the cost of out-of-hospital medical expenses above a concessional threshold, through the Medicare Safety Net, and
- In some instances, additional health, household, transport, education and recreation concessions which may be offered by a State or Territory and local governments and private providers. These providers offer these concessions at their own discretion, and the availability of these concessions may vary from state to state.

Retired aged persons on a government income support payment are issued with a Pensioner Concession Card (PCC) or a Health Care Card (HCC), which also provide access to concessional pharmaceuticals under the PhBS.

Allowances

The CSHC also provides access to the:

- Seniors Concession Allowance - a non-taxable payment of $128.50 made every three months to help with regular bills such as energy, rates and motor vehicle registration fees that are not available at a concessional rate.
- Telephone Allowance - a non-taxable payment of $23 made every three months if the CSHC holder has a telephone connected in Australia. A higher rate of $34.60 is paid every three months where the person has an Internet connection.

Card holders

As at June 2008 there were 278 378 CSHC holders.[51]

Comment

The original proposal presented in the 2008-09 Budget to amend the CSHC income test was aimed at:

> ensuring that, in applying the existing income test, all income received by seniors — whether from superannuation or another source such as a managed fund or interest from a bank account, is treated in the same way.[52]

The group of retired aged persons who do not get any benefit from this revised CSHC income test proposal are those self-funded retirees aged over Age Pension age who are working and are also salary sacrificing employment income into superannuation. This group would be smaller than the group who do gain a benefit from this modified proposal, that is, self-funded retirees with superannuation income from a private taxed superannuation source.

This later group is larger than the first group. This is indicated by the projected savings of the original proposal and the modified proposal. The Explanatory Memorandum attached to the first Bill provided detail that the combined estimated expenditure and savings on the income test changes would result in net expenditure of $12.3 million in 2008-09. However, over the following three years the estimated net savings were $30.2 million in 2009-10, $32.3 million in 2010-11 and $34.6 million in 2011-12. This was a net saving of $84.8 million over the four years.[53] This contrasts with the estimated savings for the modified CSHC income test presented with this Bill of $48.5 million over four years.[54]

The original intent of the CSHC when introduced was to allow some self-funded retirees access to concessional pharmaceuticals. The income test cut-off limits for the CSHC were raised twice during the years of the Howard government to the current $50 000 single and

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51. Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), *Annual Report 2007-08*, Canberra, FaHCSIA, p. 145, viewed 19 June 2009, http://www.facs.gov.au/annualreport/2008/default.htm

52. Australian Government, *Budget measures: budget paper no. 2:2008-09*, Commonwealth of Australia, pp. 381-382.

53. Social Security and Veterans' Entitlements Amendment (Commonwealth Seniors Health Card) Bill 2009, *Explanatory memorandum*, http://parlinfo/parlInfo/search/display/display.w3p;adv=yes;db=;group=;holdingType=;id=;orderBy=customrank;page=0;query=Content%3Aseniors%20Dataset%3AbillsCurBef,billsCurNotBef;querytype=;rec=0;resCount=Default

54. Explanatory Memorandum, *Financial impact statement*.

$80 000 partnered (combined). However, the fact there are still income limits indicates that the current government still wants some targeting of access to the CSHC, otherwise there would be no income limits and all persons of Age Pension age not on an income support payment would be provided with a CSHC. To not include the income from private taxed superannuation sources will see some self-funded retirees with large amounts of such superannuation income able to access a CSHC. This will contrast with like self-funded retirees, with superannuation income from a non-taxed source (like government superannuation) and with lesser amounts of income not being able to access a CSHC.

Schedule 14–Indexation of Family Tax Benefit Part A and Maternity Immunisation Allowance

Indexation for family payments to movements in the Consumer Price Index (CPI) was introduced on 1 January 1990. Rates were also benchmarked to a proportion of the pension rate. The rate for a child aged 0 to 12 years was benchmarked to 15 per cent of the combined couple rate of the pension. The benchmark for 13 to 15 year olds was set at 20 per cent of the combined couple rate of the pension. These benchmarks were part of the Hawke Government policy announced in July 1987 to ensure that no child need live in poverty by 1990.[55]

This move ensured that ad hoc increases above normal indexation to the CPI in the pension rate provided by the Labor Government in 1990 and 1993 flowed through to family payments. These increases were delivered to keep the pension rate up with the 25 per cent of average weekly earnings benchmark originally announced by the Whitlam Government.

Under the Howard Government, pension indexation was changed from 1998 so that this 25 per cent benchmark for pensions was included in the SSA. The decade after this change saw accelerated growth in average earnings and a lower rate of increase for the CPI. Pension rates more often than not increased in line with movements in average earnings rather than the growth in the CPI. By 2008, the annual pension rate had increased by around $1500 more than would have been the case if indexed to movements in the CPI alone.[56]

Family payment rates also increased ahead of the growth in the CPI as a consequence of the benchmarks introduced in 1990. The benchmarks were updated with the introduction of the Family Tax Benefit (FTB) in 2000. The benchmarks for 0 to 12 year olds and the 13 to 15 year olds increased to 16.6 per cent and 21.6 per cent of average earnings

55. B Howe (Minister for Social Security), *A Fair Deal for Families: Economic Statement April 1989*, media release, 12 April 1989, p. 2.

56. Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), *Annual Report, 2007–08*, FaHCSIA, Canberra, 2008, p. 137.

respectively. This ensured that the higher rates that came with Family Tax Benefit were maintained.

Breaking the link with the pension is estimated to save over one billion dollars over the next four years. This estimate is based on the assumption that the CPI will grow less than average earnings. While this is probably a reasonable assumption in the short term, the history of these two measures by no means suggests that it will always be the case.

Schedule 17–Amendments relating to aged care

The government announced changes in the 2009-10 Budget to the way persons in aged care are funded and the share of the pension rate that aged care providers can access to fund the daily care cost of aged care residents.[57] The proposal involves changes to the amount of the maximum single rate of pension aged care providers can charge residents for their daily care fee.

Current aged care daily care fee

Under section 58-4A of the *Aged Care Act 1997* (ACA), the maximum fee an aged care provider can charge a resident in nursing home care is 85 per cent of the maximum single rate of pension.

> Section 58-4A The ***standard resident contribution*** for a care recipient who is a post-2008 reform resident is the amount obtained by rounding down to the nearest cent an amount equal to 85% of the * basic age pension amount (worked out on a per day basis).

Concerns about any pension increase being lost

Concerns have been expressed that for increase in the rate of the pension, most of the increase would not be seen by individual pensioners but be passed on to nursing home care providers, due to this legislative link between the pension rate and the maximum daily care fee rate.[58] The one-off $30 per week increase in the single rate of pension would have

57. J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Pension reform: impact on aged care and public housing*, media release, Canberra, 12 May 2009, viewed 19 June 2009, http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/aged_care_housing_12may2009.htm

58. S Elks, *'Increase should come straight to us, says aged-home resident'*, The Australian, p. 12, 12 August 2008, viewed 22 June 2009, http://parlinfo/parlInfo/search/display/display.w3p;adv=yes;db=;group=;holdingType=;id=;orderBy=customrank;page=1;query=Content%3A%22nursing%20home%22%20Content%3Apension%20Content%3A%22nursing%20home%22%20(Date%3A01%2F01%2F2008%20%3E%3E%20)%20Dataset%3Apressclp;querytype=;rec=9;resCount=Default

seen $25.50 of this increase potentially passed on the nursing home providers under the current section 58-4A of the ACA. Schedule 17 of the Bill proposes to amend section 58-4A to ensure a greater proportion of the pension rate increase and also the proposed Pension Supplement end up in the hands of the pension recipient. This is partially achieved by reducing the 85 per cent fee, as set out in section 58-4A, down to 84 per cent of the single rate of pension. The government claim is that of the $32.49 per week increase in the single age pension, pensioners in residential aged care will receive a net benefit of $10.49 per week.[59]

Increase funds for aged care providers

The other aim of the Schedule is to increase the amount of financial assistance provided to residential aged care providers. An additional $22.40 per week will go to residential aged care providers per person. This is an additional $713.2 million over the next four years to assist with the costs of food and cleaning.[60] It may also indirectly go some way towards addressing some of the concerns of the aged care industry, especially about the need for more funds for capital expenditure.[61]

Other residential aged care residents have daily care fees saved

Residents of residential nursing homes who are either self-funded retirees or part-rate pensioners will have their daily care fee saved at the current rate to protect them from any increase in the fees as a result of these changes. With the proposed $30 per week increase to the single pension rate, even with the reduced daily care fee rate of 84 per cent, it would still be more than 85 per cent of the current pension rate.

Newly entering residents after 20 September 2009 who are self-funded retirees or part-rate pensioners will also be partially saved. Their daily care fee will start off at the pre-20 September 2009 rate (that is $33.41 per day) and their rate will be increased every six months over four years until their daily care fee reaches 84 per cent of the basic single pension rate.

Schedule 18–Operational area

Schedule 18 presents amendments to the *Veterans' Entitlements Act 1986* (VEA). It proposes to add to the definition of an 'operational area' in Schedule 2 of the VEA, which describes operational areas as provided for under section 5B of the VEA. Section 5B

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59. Explanatory Memorandum, p. 97.

60. Explanatory Memorandum, p. 97.

61. Aged Care Association of Australia, *Aged care capital reform now urgent,* media release, 13 March 2009, viewed 22 June 2009, http://www.agedcareassociation.com.au/content/Aged%20Capital%20Reform%20now%20urgent.pdf

refers to war and operational area terms and definitions. Schedule 2 of the VEA describes service that is classified as operational service.

Service in an operational area generally refers to service that is classified as war service or warlike service. Such war or warlike service allows access to some of the major assistance arrangements in the VEA, like access to the age service pension. It also can provide access to a Gold Card for older aged service personnel with war or warlike service. For example, all service personnel now aged 70 or more with post World War Two operational service now qualify for a Gold Card. Schedule 18 proposes to add to the definition of an operational area service in Schedule 2 of the VEA, service in the area of the Red Sea north of parallel 20 degrees in the period 13 January to 19 January 1993. This is the period of Australia's involvement in what is now known as the first Gulf War.

Committee consideration

The Bill has been referred to the Senate Community Affairs Committee for inquiry and report by 23 June 2009. Details of the inquiry are at http://www.aph.gov.au/senate/committee/clac_ctte/social_security_pension_reform_09/index.htm

Financial implications

Detailed tables of the financial impact of measures in the Bill are provided at the beginning of the Explanatory Memorandum at: http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4155_ems_741e6245-292e-4299-8ffa-01cca6ba17ec/upload_pdf/330671.pdf;fileType=application%2Fpdf

Main provisions

Schedule 1–Single pension rate increase

Part 1–Increase maximum basic rate

Item 1 provides for an increase to the basic rate of the single pension of $1 560 per annum for pension rate payments except for Parenting Payment Single and DSP for people aged under 21 years. The increase is to take effect from 20 September 2009.

Part 2–Disability support pension for persons under 21 and with dependent children

The DSP rate paid to persons aged under 21 years has a Youth Disability Supplement paid in addition to their basic pension rate.[62] This raises the rate of DSP paid recognising the

62. The rate of the Youth Disability Supplement is $105.20 per fortnight as at June 2009.

extra costs often faced by a person with a disability and for persons with sufficient level of work incapacity to qualify for DSP at such a young age they may be paid DSP for a prolonged period. **Items 2 to 24** refer to the rate paid to DSP recipients aged less than 21 years with a dependant child.

Schedule 3–New MTAWE benchmarks

Item 8 replaces subsection 1195(2) with **new subsections 1195(2), (2A) and (2B).** They provide for Parenting Payment Single to continue to be benchmarked to 25 per cent of MTAWE and the couple pension rate to be benchmarked to 41.76 per cent of MTAWE.

Item 9 inserts **new section 1198A** which benchmarks the single rate of pension to 66.33 per cent of the combined couple of pension.

Schedule 4–The pension supplement

Item 1 of Part 1 inserts **new section 20A** which provides for the definitions relating to the pension supplement.

Part 2 provides for the rate calculation for the pension supplement.

Part 3 provides for the rate calculation of the seniors supplement.

Schedule 5–Flow-through of pension supplement to CPRS

Schedule 5 adjusts the amendments to be made to the Social Security Law by the *Carbon Pollution Reduction Scheme (Household Assistance) Act 2009* to take account of changes to pension and supplement rates made in this Bill.

Schedule 6–Income tests

Part 1 changes the pension income test taper rate from 40 per cent to 50 per cent.

Part 2 removes the additional income test free area for dependent children from the pension income test.

Schedule 7–Work bonus

Item 4 inserts **new Division 1AAA** which provides for the work bonus.

Schedule 8–Employment income attribution for persons of pension age

Schedule 8 provides for the assessment of employment income for the purposes of the work bonus.

Schedule 9–Pension bonus scheme

Item 1 inserts a new sections (1A) and (1B) into section 92J(1) to detail that a person cannot be registered for the PBS after 20 September 2009. **Item 2** details that the amendments in **Item 1** refer to applications for the PBS lodged on or after 20 September 2009. The net effect of these two items is to no longer allow the acceptance of any applications for the PBS lodged on or after 20 September 2009.

Schedule 1–Transitional arrangements

Schedule 10 provides for transitional arrangements to ensure that people potentially adversely affected by changes to the income test do not suffer a rate reduction as a result of the changes.

Schedule 11–Pension age

Items 1 and 2 repeal subsections 23(5A) and 23(5D) and substitutes **new subsections (5A and 5D)** to change the qualifying age for the age pension for men and women such that:

A man born during the period:	a woman born during the period:	will turn pension age at:
On or before 30 June 1952	1 January 1949 to 30 June 1952	65 years[63]
1 July 1952 to 31 December 1953	1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	1 July 1955 to 31 December 1956	66 years and 6 months
On or after 1 January 1957	On or after 1 January 1957	67 years

Schedule 12–Advance payments

Schedule 12 provides for increased flexibility in the operation of pension advances. The maximum and minimum amounts that can be advanced and the number of advances that can be made in a year are proposed to be adjusted.

Schedule 14–Indexation under family assistance law

Items 1, 2 and 5 repeals provisions of the *Family Assistance Act 1999* that provide for FTB-A rates to be benchmarked to the combined pension rate.

63. No increase in age pension for this age group

Item 3 changes the timing of indexation of the Maternity Immunisation Allowance from twice yearly in March and September to once yearly in July.

Schedule 15–Portability of payments

Schedule 15 extends the overseas portability to allow students receiving a range of income support payments to receive payment while studying overseas for the duration of their overseas study.

Schedule 16–Excluded income

Schedule 16 excludes from the definition of income used in the Social Security and Veterans' Affairs income tests, payment made under the Western Australian Cost of Living Rebate Scheme and the value of the Western Australian Country Age Pension Fuel Card.

Members, Senators and Parliamentary staff can obtain further information from the Parliamentary Library on (02) 6277 2410.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.