



**SENATE COMMUNITY AFFAIRS
LEGISLATION COMMITTEE**

**Consideration of Legislation Referred
to the Committee**

**SOCIAL SECURITY AND VETERANS' AFFAIRS
LEGISLATION AMENDMENT
(PENSION BONUS SCHEME) BILL 1998**

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REPORT

SOCIAL SECURITY AND VETERANS' AFFAIRS LEGISLATION AMENDMENT (PENSION BONUS SCHEME) BILL 1998

1. THE INQUIRY

1.1 The Social Security and Veterans' Affairs Legislation Amendment (Pension Bonus Scheme) Bill 1998 was introduced into the House of Representatives on 26 March 1998 and into the Senate on 13 May 1998. On 1 April 1998, the Senate, on the recommendation of the Selection of Bills Committee (Report No. 4 of 1998), referred the provisions of the Bill to the Committee for report by 13 May 1998. The reporting date was subsequently extended to 27 May 1998.

1.2 The Committee considered the Bill at a public hearing on 15 May 1998. Details of the public hearing are referred to in Appendix 2. The Committee received three submissions relating to the Bill and these are listed at Appendix 1.

2. THE BILL

2.1 The Social Security and Veterans' Affairs Legislation Amendment (Pension Bonus Scheme) Bill 1998 provides for the introduction of a pension bonus scheme for retirement age persons. The Scheme gives effect to an election commitment to introduce a 'Pension Bonus Plan' and also forms part of a commitment expressed in the Budget to encourage self-reliance.

2.2 Under the Scheme, a person who qualifies for an age pension (or corresponding payment from the Department of Veterans' Affairs (DVA)) but defers claiming that payment may be entitled to receive a tax-free lump-sum bonus payment, provided that the person passes the work test (that is, the person or the partner works at least an average of 20 hours per week over 48 weeks of the year – equivalent to 960 hours per year – or the pro rata equivalent for a part year). This therefore, excludes persons who may wish to access the Scheme whose main income and means of support is other than work, for example, investments, superannuation, overseas pensions, or as a silent partner in a business. A person must also register as a member of the Scheme with Centrelink or DVA within 13 weeks of first qualifying for the age (or equivalent DVA) pension.¹

2.3 A person can accrue a bonus of between one and five years from the time they first qualify for the age pension (or equivalent Veterans Affairs payment) until they reach 75 years of age. The amount of pension bonus payable is calculated by multiplying the annual basic rate of age pension payable to the person at grant by the bonus percentage (9.4 per cent for each year). This amount is then multiplied by the number of years worked (up to a maximum of 5 years). People who have accrued the minimum of a one year bonus under the Scheme may claim the bonus when they choose to retire from the workforce.²

1 Explanatory Memorandum, pp.i, 5-10.

2 Explanatory Memorandum, p.i; Submission No.3, pp.2-3.

2.4 The objectives of the Pension Bonus Scheme are to:

- increase labour market participation of retirement age persons;
- allow people who defer their pension to increase their retirement savings during the deferment period; and
- restrain growth in pension outlays.³

2.5 The Scheme also recognises the contribution made by people who remain in employment and defer their age pension by providing a reward for this behaviour. The Scheme has a strong labour market focus, being targeted at those who already have a substantive attachment to the workforce upon reaching retirement age, and intend to continue to undertake substantial work.⁴

2.6 The Minister in the Second Reading Speech stated that:

This scheme...is designed to provide an incentive for older Australians to remain in the workforce. The scheme is voluntary and each person can choose to enter the scheme based on their particular circumstances and preferences. By choosing to work longer, people can add to their individual savings for retirement.⁵

3. ISSUES

Numbers affected and financial implications

3.1 The Australian Council of Social Service (ACOSS) and the Australian Pensioners' and Superannuants' Federation (APSF) sought clarification of the likely take-up and financial impact of the proposed Scheme.⁶ The Departments of Social Security (DSS) and Veterans' Affairs stated that the Scheme will encourage 18 per cent of new pension claimants (who at the time of claiming are in the workforce) to continue working and earn a bonus rather than stop working and claim the pension. DSS/DVA estimate that 34 000 people will participate in the Scheme in the first four years of its operations.⁷

3.2 Data provided by DSS and DVA indicate that the Scheme will entail a net cost of \$4.97 million in 1997-98 and net savings of \$18.4 million in 1998-99, \$43.7 million in 1999 - 00 and \$44.7 million in 2000-01. The Scheme is expected to be cost neutral in the longer term (over 22 years).⁸

3 Submission No.3, p.3.

4 Submission No.3, pp.1-2.

5 Minister's Second Reading Speech

6 Submission No.1, pp.1-2; Submission No.2, p.2.

7 Data based on DSS/DVA figures as agreed with the Department of Finance and Administration. See Submission No.3, p.5.

8 *Committee Hansard*, 15.5.98, p.37. For further details of expected take-up and the financial impact of the Scheme see Submission No.3, p.5; and financial impact statement in the Explanatory Memorandum.

Potential beneficiaries under the Scheme

3.3 ACOSS and APSF claimed that there is potential for higher income earners to make ‘windfall gains’ from the Scheme by running down their assets or income in order to qualify for the pension at the end of the bonus accrual period.⁹ ACOSS acknowledged, however, that ‘it is not certain that many people would do this’.¹⁰

3.4 DSS and DVA noted, however, that the Scheme provides that a bonus payment can only be made to a person who is able to claim and receive an age (or equivalent DVA) pension within 13 weeks of their retirement or within 13 weeks of failing to meet the work test requirements for a year. The 13 week limits were included to minimise the capacity of people to disperse or reduce their retirement savings following the cessation or reduction in work. In addition, the Scheme features a gifting preclusion. This has the effect of preventing people who gift more than \$10 000 in a year from accruing a pension bonus for five years from the date the gifting took place.¹¹

3.5 ACOSS and APSF claimed that there should be a means test at registration for the Scheme and during the accrual of the bonus to prevent high income earners claiming a bonus.¹² DSS and DVA stated, however, that there is no means test at registration because the ‘existing means testing arrangements would provide significant anomalies and inequities if they were used for people who had retirement savings but have not yet structured their investments for retirement’.¹³

Possible displacement effects

3.6 DSS and DVA advised the Committee that the model used to estimate the changes to pension outlays as a result of the introduction of the Scheme uses a 30 per cent displacement to labour market payments. The displacement factor relates to 30 per cent of single people, and a corresponding ratio for couples who choose to defer the age pension because of the existence of the Scheme. The displacement rate is made up of two factors, namely the proportion of those finding work/staying in work who displace other workers and the proportion of those displaced going onto income support.¹⁴ DSS stated that the displacement ratio adopted is a ‘reasonable robust figure’.¹⁵

3.7 DSS and DVA suggested that it is difficult to determine the extent that young people would be displaced from employment as a result of the introduction of the Scheme. DSS/DVA stated that some displacement may occur in some sectors such as the retail industry, but any displacement in the self employed and small business sectors would likely to be significantly less. Overall, the Departments argued that the labour market displacement effect on young people would be ‘modest’.¹⁶

9 *Committee Hansard*, 15.5.98, p.33; Submission No.1, p.2; Submission No.2, p.2.

10 Submission No.1, p.2.

11 Submission No.3, p.6; *Committee Hansard*, 15.5.98, p.35.

12 *Committee Hansard*, 15.5.98, pp.33-34; Submission No.1, p.2; Submission No.2, p.2.

13 Submission No.3, p.6.

14 Submission No.3, p.8.

15 *Committee Hansard*, 15.5.98, p.38.

16 Submission No.3, p.9. See also Submission No.1, p.3; *Committee Hansard*, 15.5.98, p.38.

3.8 APSF also argued that overseas research on labour force participation rates of older workers shows no evidence to suggest that ‘keeping older people in employment takes jobs away from younger people’.¹⁷

Advice for participants in the Scheme

3.9 The Committee believes that adequate and timely advice needs to be made available to people utilising the Scheme. DSS and DVA advised the Committee that both Departments have developed administrative processes to assist people in making an informed choice regarding participation in the Scheme.¹⁸ DSS stated that ‘we recognise that this will be an important decision for older people. For this reason, we will ensure there is ample advice available to them so they understand the full implications of the scheme before they decide to register.’¹⁹ APSF noted that an extensive publicity and education campaign will be required to assist people in assessing whether participating in the Scheme will be in their best interests.²⁰

3.10 DSS and DVA stated that people approaching Centrelink to register for the bonus will be referred to a Financial Information Service (FIS) officer and provided with information about the Scheme and its application in their individual circumstances. Additional FIS resources have been provided as part of this initiative. Registered members of the Scheme will also receive an annual mailout from Centrelink to provide additional information (such as whether they should consider claiming pension rather than continuing in deferment) and reminding them of the rules governing the scheme. In addition, Centrelink will be working very closely with the financial community to ensure they have sufficient information and understanding of the Scheme so as to correctly advise their clients for retirement planning purposes.²¹

4. RECOMMENDATION

4.1 The Committee reports to the Senate that it has considered the Social Security and Veterans’ Affairs Legislation Amendment (Pension Bonus Scheme) Bill 1998 and **recommends** that the Bill proceed.

Senator Sue Knowles
Chairman

May 1998

17 Submission No.2, p.6.

18 Submission No.3, p.7.

19 *Committee Hansard*, 15.5.98, p.36.

20 Submission No.1, p.5.

21 Submission No.3, p.7.

Additional Comment by Senator Forshaw and Senator Denman

AUSTRALIAN LABOR PARTY

SOCIAL SECURITY AND VETERANS' AFFAIRS LEGISLATION AMENDMENT (PENSION BONUS SCHEME) BILL 1998

A number of significant issues were raised in relation to this Bill during the public hearing on 15 May 1998. Some of these issues are still of concern and raise doubts about the value of the scheme.

Perhaps the most significant concern involves the numbers of people who are likely to benefit from the scheme who would have continued in the workforce beyond pension age regardless. These people stand to receive a windfall gain for doing what they would have done in any event. According to the joint Departmental submission it is estimated that 60,090 prospective social security pensioners will register for the scheme in 1998-1999 and that 52,938 or some 88% of these people would have continued working regardless of the scheme. It is further estimated that of the additional 18,869 prospective social security recipients likely to register for the scheme in 1999-2000, 13,403 or over 70% would have deferred retiring in any event. Of the 20,361 expected to defer retirement in 2000-2001, 12,900 or 63% would probably have deferred regardless of the scheme (Submission No.3, Table 2).

It was submitted by the Departments that the savings generated by those who changed their behaviour would offset the costs of those who received a bonus for doing what they would have done in any event (Submission No.3, page 5). The truth of this submission would have to depend upon its underlying assumptions, for example the length of time people are likely to defer retirement as a result of the scheme and hence the percentage of their pension entitlement they might expect to receive as a bonus. It still appears that the cost implications of the scheme are far from clear.

A further concern involves the likely effects of the scheme upon younger workers. It has been assumed that 30% of those who defer retiring because of the scheme will displace younger workers. In their joint submission the Departments concede that there is no hard evidence to support this assumption (Submission No.3, page 7). If the assumption is correct it is an important factor to be taken into account in assessing the scheme. The fact that it is a mere assumption and that the true displacement implications are unknown is also a matter of concern.

In summary, both the direct and indirect costs of the scheme appear uncertain. It is something of an experiment, the results of which are unlikely to become apparent for quite some time to come.

With these reservations, the Labor Opposition does not oppose passage of the Bill.

Senator Michael Forshaw
(ALP, New South Wales)

Senator Kay Denman
(ALP, Tasmania)

APPENDIX 1

SUBMISSIONS RECEIVED BY THE COMMITTEE

- 1 Australian Council of Social Service
- 2 Australian Pensioners' & Superannuants' Federation
- 3 Departments of Social Security and Veterans' Affairs

APPENDIX 2

PUBLIC HEARING

A public hearing was held on the Bill on 15 May 1998 in Senate Committee Room 2S1.

Committee Members in attendance

Senator Sue Knowles (Chairman)
Senator Kay Denman
Senator Alan Eggleston
Senator Michael Forshaw
Senator John Woodley

Witnesses

Australian Pensioners' & Superannuants' Federation *via teleconference*

Mr Gerard Thomas, Policy Officer
Ms Sarah Fogg, Executive Officer

Department of Social Security

Ms Kerry Flanagan, Executive Director
Mr Evan Mann, Assistant Secretary, Retirement Programs Branch
Ms Judy Cook, A/g Director, Retirement Monitoring and Evaluation Section,
Retirement Programs Branch
Mr Stuart Long, Legal Services Branch

Department of Veterans Affairs

Mr Bob Hay, Branch Head, Income Support
Mr Trevor Hughes, Director, Business Administration