Australian Government

Department of Social Services

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Deputy Secretary

Senator Zed Seselja
Chairperson
Senate Standing Committee on Community Affairs
PO Box 6100
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Dear Senator Seselja

SUBMISSION TO SENATE COMMUNITY AFFAIRS LEGISLATION COMMITTEE

Please find attached the Department of Social Services submission to the Senate Community Affairs Legislation Committee Inquiry into the *Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015.*

Thank you for providing the Department with an opportunity to make a submission.

Yours sincerely

Serena Wilson

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Opening Statement

This Bill introduces several 2015 Budget measures to improve the fairness and sustainability of the social support system. The measures will ensure assistance is targeted to those with low to moderate means and reduce assistance for pensioners and self-funded retires with higher levels of assets or superannuation income who have the capacity to use their resources for self-support.

The Government decided not to proceed with several measures from the 2014-15 Budget including:

- indexation of pensions and pension equivalent payments by the Consumer Price Index (CPI);
- elements of the measure to maintain income test eligibility thresholds for three years (pensions and deeming thresholds); and
- resetting the deeming thresholds.

Not proceeding with these 2014-15 measures will ensure that pensioners with relatively low incomes or means of self-support are not affected by measures to improve the affordability of the social security system.

The measures in the Bill reinforce the targeted and residence based nature of the social security system.

The changes 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.

Changes to education supplements for income support recipients reflect the availability of a range of alternative forms of support.

SOCIAL SERVICES LEGISLATION AMENDMENT
(FAIR AND SUSTAINABLE PENSIONS) BILL 2015.

Schedule 1 – Defined benefit income streams

This Schedule will increase for some income support recipients the proportion of their defined benefit income stream that is assessed under the social security income test by capping the proportion of income that can be excluded from the income test (deductible amount) at ten per cent from 1 January 2016. The deductible amount is designed to reflect the return of after-tax contributions, if any, made by the employee to their defined benefit income stream.

Service pensioners will not be affected and defined benefit income streams from military defined benefit schemes will be exempt from the proposal in recognition of the unique nature of their military service.

The measure addresses an anomaly in the income test treatment of some defined benefit income streams that resulted in a highly concessional income test deduction for some people. It gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.

There will be no change to the assets test assessment. Defined benefit income streams are exempt from the assets test as they do not have an underlying assessable asset value.

There are around 140,000 DSS recipients with defined benefit income streams. Around 55 per cent of income support recipients with defined benefit income streams currently have no deductible amount. A further 10 per cent have a deductible amount less than 10 per cent.

Approximately 35 percent, around 47,700, are impacted by the change, of which:

- around 20 per cent are provided by the Federal Government,
- around 75 per cent by State and Local Governments, and
- around 5 per cent by corporate organisations.

The measure will generate savings of $465.5 million over the forward estimates for all affected agencies. For the first full year, approximately:

- 46,000 DSS recipients will receive a reduced pension/allowance by an average of $2,150 a year ($82.70 a fortnight); and
- 1,700 DSS recipients would be cancelled.

Background

A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund (e.g. Public Sector Superannuation Scheme, Commonwealth Bank Officers Superannuation Fund) where the pension generally only reflects years of service and final salary.

Income payments are set by the rules of the scheme, usually indexed and scheme members have no ability to access capital or lump sum payments from the scheme.

In these schemes employers usually fund these income streams as liabilities arise. Generally employees do not provide any of their own contributions to these income streams.

However, some of these schemes, particularly State Government schemes, include up front contributions from both employees and employers towards the future costs of the pension.

How did the anomaly come about?

20 September 1998 – Standardisation of assessment of all income streams

- As part of an overhaul of the social security rules for income streams, the means test treatment for defined benefit income streams was standardised.
- Under the assets test, these income streams were granted an assets test exemption. The exemption reflects that it would not be equitable to assess an asset value, since these income streams do not have a meaningful capital value to assess, and that people with these income streams do not have access to any capital backing the income stream.
- Under the income test, all income was assessable except for a small portion representing the amount of personal after-tax contributions (if any) provided directly by the member.
    - This amount is called the deductible amount and was based on the income tax definition.
    - It was set as a fixed dollar amount when the income stream commenced.

How did the anomaly come about? (continued)

1 July 2007 – Better Superannuation package

- Superannuation measures were introduced to simplify the taxation of superannuation payments.
    - One measure changed how the deductible amount was calculated for tax purposes.
    - Social security rules automatically followed because of the link to the income tax legislation.
- The change in the calculation of the deductible amount resulted in people with service prior to 30 June 1983 having a significant amount of up front employer contributions treated as personal after-tax contributions.
- This higher deductible amount was also changed from a fixed amount to a percentage of annual income, which meant it increased as income stream payments increased.
- Together these changes 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. For example, as at 30 June 2006, only 2.6 per cent of income support recipients had a deductible amount greater than 10 percent.

Schedule 2 - Proportional payment of pensions outside Australia

From 1 January 2017, this Schedule will reduce from 26 to six weeks the length of time the Age Pension, and a small number of other pensions with unlimited portability, will generally be paid at the basic means-tested rate while the person is outside Australia.

After six weeks, payment will be made on a proportional basis according to the length of the pensioner's Australian Working Life Residence. Australian Working Life Residence is the period of time between age 16 and Age Pension age. To retain their basic means-tested rate while overseas, a person needs 35 years' working life residence in Australia. If a person's period of Australian Working Life Residence is less than 35 years, their individual rate of pension after six weeks will be adjusted according to their years of working life residence. For example, a person with 17 years Australian Working Life Residence will be paid 17/35ths of their basic means tested rate after six weeks overseas.

There will be transitional provisions – including special arrangements for pensioners overseas on the implementation date, those with 35 years or more of Australian working life residence, and those already exempt from the proportional payment rules.

The measure does not affect the length of the portability period, which continues to be unlimited. However, the rate received after a six-week absence may change.

The amendments will commence from 1 January 2017, but will only apply to absences starting on or after that date. Pensioners who are overseas on 1 January 2017 will continue to be allowed the full 26-week period of absence before their payment is potentially reduced.

The measure will reinforce and strengthen the residence-based nature of Australia's social security system.

Schedule 3 – Assets Test and concession cards

From 1 January 2017, this Schedule will rebalance the assets test parameters. The changes will make the pension system fairer, better targeted and sustainable into the future.

1. Description of the measure

The measure includes:

- an increase in the assets test free areas, to provide extra assistance to part rate assets tested pensioners with moderate assets;
- an additional increase in the free areas for non-homeowners, to ensure fairer treatment for those who have chosen not to, or are not in a position to, purchase their own home and therefore do not benefit from the principal home exemption; and
- a tightening of the assets test taper (or withdrawal) rate, to $3.00 for every $1,000 of assets above the new free areas, to better target the pension and help ensure it is sustainable.

There will be no change to the existing assets test exemption for the family home.

Only people with significant levels of assets other than their home will have their payments affected. Those most affected by the changes (those with assets just above the rebalanced assets test cut off amounts that would apply from 1 January 2017) would only have to draw down a maximum of around 1.8 per cent of their assets to make up for the loss of their part pension. Tables setting out the impact of the changes are at **Attachment A**.

Pensioners who lose pension entitlement on 1 January 2017 as a result of the measure will be automatically issued with a Commonwealth Seniors Health Card, or a Health Care Card (for those under Age Pension age). They will be eligible for the card indefinitely without having to meet the usual income test requirements. Veterans who would otherwise lose their Veterans' Affairs Gold Card as a result of the changes will retain their card.

The assets test limits for Social Security Allowance payments (such as Newstart and Sickness Allowance, Austudy, Parenting Payment and Special Benefit) will also increase under the measure, in line with the increase in the pension free areas. Accordingly, from 1 January 2017, people with asset holdings under the new free areas may become eligible for an Allowance payment.

Description of the measure (continued)
The proposed changes to the assets test will save $2.4 billion over four years. The Government will not be proceeding with the 2014-15 Budget measure that would have changed the way that pensions are indexed. Changing the assets test, rather than changing pension indexation, will ensure pensioners with relatively low income or means of support are not adversely affected by changes to improve the affordability of the pension system.

2. Policy rationale for tightening the assets test taper

The tightening of the assets test taper rate will ensure that retirees who have the capacity to support themselves no longer receive the Age Pension. Under the current rules, pensioners with very high levels of assets can access a part pension. For example, a pensioner couple who own their own home can have up to $1.15 million in assets, in addition to their family home, and still qualify for a part pension.

The 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.

The current system appears be allowing pensioners to maintain or grow their assets, rather than encouraging self-provision.

- Both in the first five years on the pension and the last five years of the pension, the majority of pensioners are either increasing their assets or are maintaining their assets at the same level.
- There is no evidence that savings behaviour is influenced by the assets test. There was no discernable impact on savings of the previous $3.00 taper that applied until September 2007. There was no clustering of assets just below the assets free areas and just over the assets free areas that would be expected if the taper rate was affecting people's behaviour.

3. Key Facts

<u>Rebalanced parameters</u>
Under this measure the amount of assets (excluding the family home) pensioners can hold without any impact on their pension under the assets test from 1 January 2017 will be:

- $250,000 for single homeowners *($48,000 more than the current amount);*
- $375,000 for couple homeowners *($88,500 more than the current amount);*
- $450,000 for single non-homeowners *($101,500 more than currently); and*
- $575,000 for couple non-homeowners *($142,000 more than currently).*

Key Facts (continued)

The assets test taper rate is being reset from $1.50 to $3 – for every extra $1,000 of assessable assets single pensioners lose $3, and couples $1.50 each, from their fortnightly payment. The change returns the taper rate to the level in place ($3.00) until September 2007.

Because the measure includes a beneficial increase in the assets test free areas, together with the tightening of the assets test taper rate that applies for amounts above those free areas, only those with assets (excluding the family home) above the following estimated amounts* will face a pension reduction from 1 January 2017:

- about $290,000 for single homeowners;
- about $450,000 for couple homeowners;
- about $535,000 for single non-homeowners; and
- about $700,000 for couple non-homeowners.

  ** The exact amounts will depend on future indexation increases prior to 1 January 2017.*

Under the measure, pension will be cancelled from 1 January 2017 where assets (excluding the family home) are above the following estimated amounts*:

- about $547,000 for single homeowners *(the current limit is $775,500);*
- about $823,000 for couple homeowners *(the current limit is $1,151,500);*
- about $747,000 for single non-homeowners *(the current limit is $922,000); and*
- about $1,023,000 for couple non-homeowners *(current limit is $1,298,000).*

  ** The exact amounts will depend on future indexation increases prior to 1 January 2017.*

<u>Customer Impacts</u>

About 88 per cent of Social Security and Veterans' Affairs pensioners will not be affected at all.

About 4 per cent, or 171,500, will benefit. 166,000 Social Security pensioners and 5,500 Veterans' Affairs pensioners with moderate levels of assets, particularly non-home owners, are expected to receive an average of about $30 a fortnight more pension under the changes. This includes 50,000 part rate pensioners who will become entitled to the full rate of pension.

The remaining 8 per cent, or about 327,300, will have significant assets, excluding the family home.

- Around 236,000 pensioners (225,500 Social Security pensioners and 10,500 Veterans' Affairs pensioners) with higher levels of assets are expected to have their pension reduced by an average of about $130 a fortnight.
- Pension will be cancelled for around 91,300 pensioners (88,500 Social Security pensioners and 2,800 Veterans' Affairs pensioners) with substantial assets, with an average loss of about $190 a fortnight.

About 6,500 people will be able to qualify for a Social Security allowance payment from 1 January 2017.

4. Long term sustainability of the pension system

The fourth Intergenerational Report (the IGR), released on 5 March 2015, emphasises the fiscal strain on the current pension system caused by structural ageing. It shows that expenditure on Age and Service Pension payments is currently equal to 2.9 per cent of GDP. In the absence of policy change, spending is projected to continue rising, reaching 3.6 per cent of GDP by 2054-55.

As the superannuation system matures, future pensioners will have higher levels of wealth than many current pensioners, and more will receive a part rate of pension. Nonetheless, despite significant improvements in superannuation balances in the future, and a larger proportion of part pensioners, the IGR projects that Age Pension coverage will remain at around 70 per cent of those of Age Pension age over the long term, if current settings are maintained. This underscores the importance of ensuring the pension is appropriately targeted to ensure it remains affordable.

The measures to improve the sustainability of the social support system in this Bill build on the 2014-15 Budget measure to improve the long-term sustainability of the pension by increasing the Age Pension age to 70 (contained in the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 5) Bill 2014).*

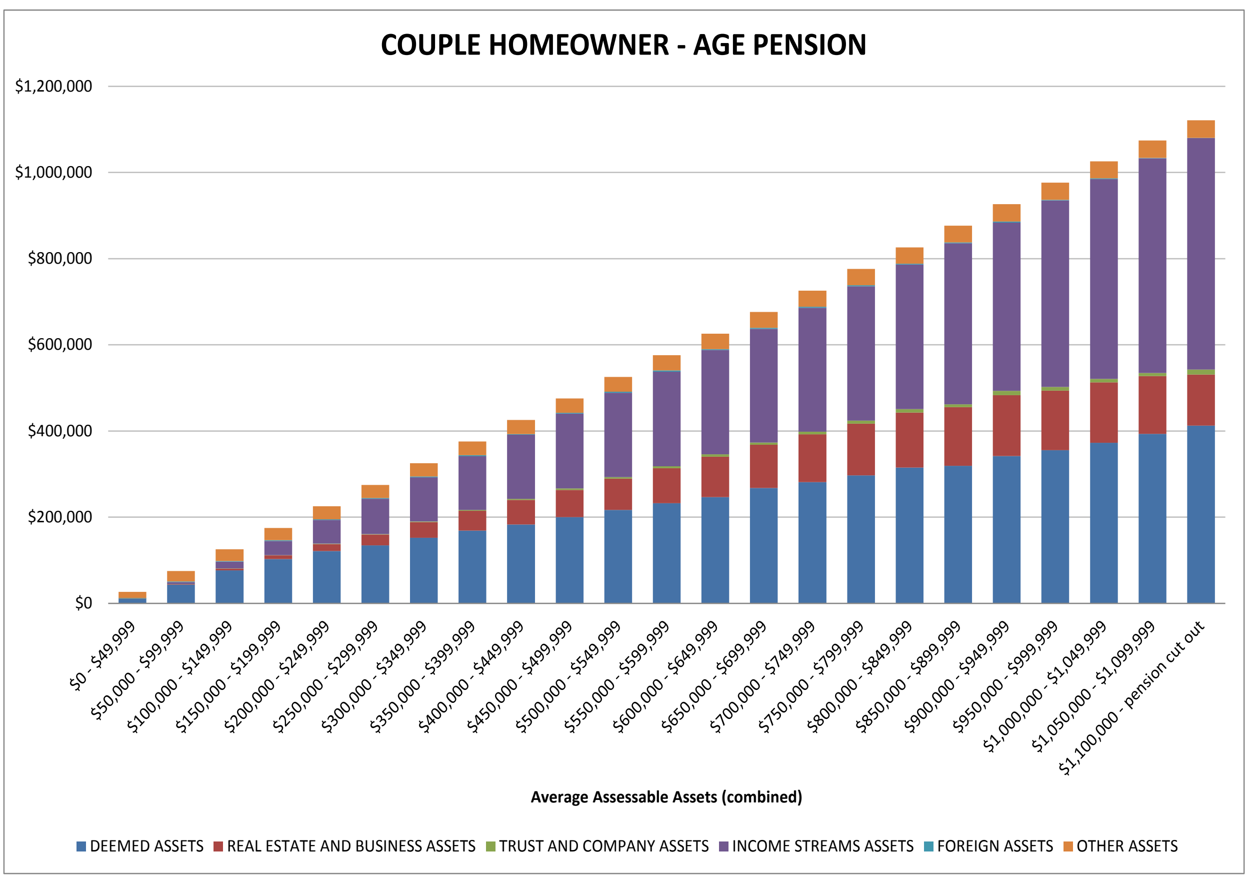
5. Responses to key concerns raised

Are the changes a disincentive to save?

There has been critical comment about the changes, both public and in correspondence being received by the Department, that focusses directly or indirectly on the effect of the change in pure income terms. That is, the pension reduction under the proposed taper rate (a taper rate of $3 a fortnight per $1,000 assets works out at a 7.8% withdrawal rate for assets held over the free areas) is higher than the amount people may be earning on their investments, and the changes are therefore a disincentive to save.

Many of these comments 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. The following chart, which outlines the types of assets held by partnered homeowner couples, shows that those with substantial assets are likely to have substantial funds in superannuation income streams, and less in low yield investments like bank accounts and term deposits.

It should also be noted that deemed assets include investment such as shares and managed investments as well as bank accounts and term deposits, with shares and managed investments generally experiencing rates of return significantly above bank account and term deposit rates. For example, the one year return to 30 June 2014 for the top 200 shares on the Australian Share Index was 12.7 per cent.



These asset classes Are the changes a disincentive to save? (continued)
Most importantly, 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.

Rather 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.

For example, assuming the drawdown of investment returns and capital over a 35 year period, and long term investment returns averaging five per cent:

- a partnered couple who own their home and have $825,000 in assessable assets (just above the estimated assets test cut off amount of $823,000 that would apply from 1 January 2017 under the proposed changes) could generate a total income (including investment returns, capital drawdowns and eventual pension entitlements) of over $58,000 year in real terms, which is approximately $25,000 a year higher than the full pension, and
- a single person who owns their home and has $550,000 in assessable assets (just above the estimated assets test cut off amount of $547,000 that would apply from 1 January 2017 under the proposed changes) could generate a total income (including investment returns, capital drawdowns and eventual pension entitlements) of over $38,000 year in real terms, which is approximately $16,000 a year higher than the full pension.

Two charts illustrating these scenarios are at **Attachment B**.

<u>Do the changes encourage pensioners to spend or gift their assets, or buy more expensive homes, in order to circumvent the changes?</u>

There have been suggestions that pensioners would be better off if they deliberately spent or gifted large amounts of their assets, or purchased a more expensive (asset test exempt) home to circumvent the assets test.

This is not the case. As mentioned earlier in this submission, people with substantial savings are able to support a higher standard of living through a combination of earnings and gradual capital drawdown than those solely reliant on the pension.

Pensioners who deliberately dissipate large amounts of their assets are not better off. A pensioner who reduced their assets by $50,000 to qualify for a higher pension payment would take more than 35 years to break even, assuming a long term investment return averaging 5%.

- The most that spending $50,000 could affect a person's pension under the new $3 per $1,000 taper rate is $150 a fortnight, or $3,900 a year. The person would also forgo interest of $2,500 a year that they could otherwise have earned. As such, the net benefit in pure income terms might be around $1,400 a year only. It would take over 35 years before the person recouped their $50,000.

There is no evidence available that suggests there is a widespread problem of people deliberately spending money in order to obtain a higher rate of pension.

- The 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.

Retirees who over-invest in housing reduce their financial capacity to enjoy a higher standard of living in retirement.

- There is no evidence that pensioners systemically over-invest in housing to gain a pension advantage.

In the long term, do the changes affect those on average incomes, and not the wealthy?

An Industry Super Australia media release about a report they commissioned on the impact of the assets test changes indicated that, in the longer term, the assets test changes will most affect those earning average incomes or just below, while "the wealthy to very wealthy will remain largely unaffected".

The findings of the report are not surprising:

- a key driver of the projected lower future age pension coverage is higher superannuation balances. This occurs as the superannuation guarantee further matures and retirees have had a lifetime of superannuation contributions. Higher retirement savings, and a corresponding lower reliance on the age pension, are intended outcomes of the superannuation guarantee system; and
- the "wealthy" are not affected by the changes because they do not get pension, even under current assets test settings.

The finding that the assets test changes will, in the longer term, affect those earning average incomes is a positive outcome. It shows that the superannuation system is working and is helping people on average incomes to achieve higher superannuation balances by retirement.

Won't people who draw down their assets end up back on the pension? Will the Government end up paying more over the longer term?

DSS analysis shows that the majority of pensioners are conservative with their savings and as mentioned earlier in this submission there was no evidence that when the assets test taper was previously $3.00 that pensioners dissipated their assets more than they currently do. Therefore it is not clear how much pensioners will draw down from their assets under the assets test changes.

Further, DSS has modelled the cost of pension for a partnered couple most affected by the changes, that is, a couple with around $850,000 in assets. The analysis compared the cost of pension under the current assets test, where the couple spend the income generated from the assets but do not draw down from their capital, versus the cost of pension for the same couple under the assets test changes, assuming they continue to spend their income and they replace their reduction in pension by drawing down an equivalent amount from their capital.

The analysis shows that 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. Based on ABS data, the life expectancy for a 65 year old female is about 22 years and for males it is about 19 years[1].

[1] Australian Bureau of Statistics 3302.0.55.001 - Life Tables, States, Territories and Australia, 2011-

The changes should be grandfathered.

There have been calls for current pensioners to be grandfathered from the changes, that is, the rebalanced assets test parameters would only apply to people granted pension after the changes commence on 1 January 2017.

Assets test taper rates have been adjusted in the past and the current $1.50 assets test taper rate, which has only been in force for 8 years since September 2007, has not been a permanent feature of the assets test. A taper rate of $4.00 applied for the first 8 years after the assets test was introduced in 1985 and a taper rate of $3.00 applied for 14 years from 1993 to 2007.

Grandfathering of this measure 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.

Particularly for this measure, grandfathering is not considered necessary as it is only people with significant levels of financial resources who will face payment reductions. This group has the capacity to adjust their financial arrangements to take into account the reduced pension income. As shown in the attached tables, those most affected by the changes would only have to draw down a maximum of around 1.8 per cent of their assets to make up for the loss of their part pension. As the changes do not commence until 1 January 2017, people have ample time to consider their situation before the changes commence.

Because the measure will result in pension increases as well as decreases, grandfathering current pensioners from the changes would present challenges and be complex. There are 171,500 pensioners with moderate levels of assets, who would receive an average of about $30 a fortnight more pension under the changes. If these pensioners were grandfathered from the changes, they would not benefit at all. As such, complex arrangements would probably need to be put in place so that those entitled to a pension increase under the changes would be able to be benefit, whereas those who would experience a pension reduction would be grandfathered. Such a grandfathering arrangement would also result in the measure increasing outlays over the medium term, rather than improving the affordability of the Age Pension. It also presents particular difficulties in the longer term, as pensioners assets and other circumstances will change over time – a person who is better off grandfathered in the short term may not be better off over a longer period, for example if the value of their assets change

Schedule 4 – Energy Supplement replacing seniors supplement

This Schedule will cease payment of the Seniors Supplement for holders of the Commonwealth Seniors Health Card and eligible holders of the Veterans' Affairs Gold Card. This will help ensure payments to senior Australians are better targeted to those who need them most.

The Commonwealth Seniors Health Card is a taxpayer funded concession card targeted at people (self-funded retirees) who have reached Age Pension age but do not qualify for any income support payment, usually because their income and/or assets exceed the threshold for the Age Pension. Providing cash payments to self-funded retirees is inconsistent with a social security system designed to assist those with less capacity for self-support.

Income of Commonwealth Seniors Health Card holders must not exceed $51,500 for singles or $82,400 for couples combined. There is no assets test. Commonwealth Seniors Health Card entitlements include:

- the purchase of Pharmaceutical Benefits Scheme prescriptions at the concessional co-payment amount;
- access to Pharmaceutical Benefits Scheme prescription at no charge for the rest of a a calendar year after reaching the Pharmaceutical Benefits Scheme Safety Net; and
- reduction in out-of-hospital expenses through the lower Extended Medicare Safety Net threshold;
- payment of the Energy Supplement ($366.60 per annum for singles and $551.20 for couples combined).

Payment of the Seniors Supplement costs the Australian taxpayer approximately $60 million each quarter or over $1 billion across the forward estimates. This will impact on approximately 308,000 concession cardholders (Commonwealth Seniors Health Card and Veterans' Affairs Gold Card). All entitlements of Commonwealth Seniors Health Card holders other than the Seniors Supplement will remain.

The Seniors Supplement accrues on a daily basis and is paid in arrears. The amendments made by this Schedule commence on 20 June 2015, allowing payment of the June quarter instalment. Accrual towards the September payment will cease after the June payment is made and the amendments will generally only affect payment of the Seniors Supplement from 20 September 2015.

Cessation of the Seniors Supplement will not affect Age Pensioners. All pensioners will continue to receive the Pension Supplement.

Schedule 5 – Pensioner Education supplement

This Schedule will cease payment of the Pensioner Education Supplement from 1 January 2016.

The Pensioner Education Supplement is a fortnightly supplement paid to eligible income support recipients to assist with the costs of undertaking approved study or training. It is paid at a rate of $62.40 per fortnight for recipients who are undertaking at least 50 per cent of a full-time study load, or $31.20 per fortnight for recipients with a study-load below 50 per cent.

Ceasing the Pensioner Education Supplement will deliver administered savings of $252.4 million over the forward estimates.

Eligible income support recipients 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.

This measure was previously contained in Schedule 4 of the Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014. The original commencement date for the measure of 1 January 2015 has been revised to 1 January 2016.

Schedule 6 – Education entry payment

This Schedule will cease payment of the Education Entry Payment from 1 January 2016.

The Education Entry Payment is a lump sum payment of $208 available to eligible income support recipients once every 12 months or each calendar year to assist with the costs of approved study or training.

Ceasing the Education Entry Payment will deliver administered savings of $64.4 million over the forward estimates.

Eligible income support recipients 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.

This measure was previously contained in Schedule 5 of the Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014. The original commencement date for the measure of 1 January 2015 has been revised to 1 January 2016.

Attachment A

Rebalance the Assets Test - pension impacts for couple homeowners

This table shows:

- the amount of pension under the current assets test arrangements and the amount under the *Rebalance the Assets Test Parameters* measure, for a couple who own their home
- the change in pension
- the percentage of assets that would need to be draw down to replace any reduction in pension as a result of the *Rebalance the Assets Test Parameters* measure.

COUPLE HOMEOWNERS (COMBINED)				
Assessable Assets	**Pension under current assets test rules***	**Pension under _Rebalanced assets test_ measure***	**Increase (+) or reduction (-) in pension**	**% of assets required to replace pension**
$100,000	$34,923	$34,923	No change	N/A
$200,000	$34,923	$34,923	No change	N/A
$300,000	$34,865	$34,923	+$59	N/A
$375,000	$31,939	$34,923	+2,984	N/A
$400,000	$30,965	$32,973	+$2,009	N/A
$451,500	$28,956	$28,956	No change	N/A
$500,000	$27,065	$25,173	-$1,892	0.38%
$600,000	$23,165	$17,373	-$5,792	0.97%
$700,000	$19,265	$9,573	-$9,692	1.38%
$800,000	$15,365	$1,773	-$13,592	1.70%
$823,000	$14,467	No pension	-$14,467	1.76%
$900,000	$11,465	No pension	-$11,465	1.27%
$1,000,000	$7,565	No pension	-$7,565	0.76%
$1,100,000	$3,665	No pension	-$3,665	0.33%
$1,194,000	No pension	No pension	N/A	N/A

*based on projected pension rates and assets test thresholds at 1 January 2017.

NOTE: There is an income test and an assets test for the pension. The test that results in the lower pension is the test that applies.
The table above applies only where pension entitlements are calculated based on the assets test.
Pensioners with assets in the ranges above will not be affected by the assets test change if the income test results in a lower rate of pension.

Rebalance the Assets Test - pension impacts for single homeowners

This table shows:

- the amount of pension under the current assets test arrangements and the amount under the *Rebalance the Assets Test Parameters* measure, for a single person who owns their home
- the change in pension
- the percentage of assets that would need to be draw down to replace any reduction in pension as a result of the *Rebalance the Assets Test Parameters* measure.

SINGLE-HOMEOWNER				
Assessable Assets	**Pension under current assets test rules***	**Pension under *Rebalanced assets test* measure***	**Increase (+) or reduction (-) in pension**	**% of assets required to replace pension**
$100,000	$23,166	$23,166	No change	N/A
$200,000	$23,166	$23,166	No change	N/A
$250,000	$21,626	$23,166	+$1,540	N/A
$289,500	$20,085	$20,085	No change	N/A
$300,000	$19,676	$19,266	-$410	0.14%
$400,000	$15,776	$11,466	-$4,310	1.08%
$500,000	$11,876	$3,666	-$8,210	1.64%
$547,000	$10,042	No pension	-$10,042	1.84%
$600,000	$7,976	No pension	-$7,976	1.33%
$700,000	$4,076	No pension	-$4,076	0.58%
$800,000	$928^	No pension	-$928	0.1%
$804,500	No pension	No pension	N/A	N/A

* based on projected pension rates and assets test thresholds at 1 January 2017.
^ minimum Pension Supplement

NOTE: There is an income test and an assets test for the pension. The test that results in the lower pension is the test that applies.
The table above applies only where pension entitlements are calculated based on the assets test.
Pensioners with assets in the ranges above will not be affected by the assets test change if the income test results in a lower rate of pension.

Rebalance the Assets Test - pension impacts for couple non-homeowners

This table shows:

- the amount of pension under the current assets test arrangements and the amount under the *Rebalance the Assets Test Parameters* measure, for a couple who do not own their home
- the change in pension
- the percentage of assets that would need to be draw down to replace any reduction in pension as a result of the *Rebalance the Assets Test Parameters* measure.

COUPLE NON-HOMEOWNERS (COMBINED)				
Assessable Assets	**Pension under current assets test rules***	**Pension under *Rebalanced assets test* measure***	**Increase (+) or reduction (-) in pension**	**% of assets required to replace pension**
$100,000	$34,923	$34,923	No change	N/A
$200,000	$34,923	$34,923	No change	N/A
$300,000	$34,923	$34,923	No change	N/A
$400,000	$34,923	$34,923	No change	N/A
$500,000	$33,012	$34,923	+$1,911	N/A
$575,000	$30,087	$34,923	+$4,836	N/A
$600,000	$29,112	$32,973	+$3,861	N/A
$699,000	$25,251	$25,251	No change	N/A
$700,000	$25,212	$25,173	-$39	0.01%
$800,000	$21,312	$17,373	-$3,939	0.49%
$900,000	$17,412	$9,573	-$7,839	0.87%
$1,000,000	$13,512	$1,773	-$11,739	1.17%
$1,023,000	$12,615	No pension	-$12,615	1.23%
$1,100,000	$9,612	No pension	-$9,612	0.87%
$1,200,000	$5,712	No pension	-$5,712	0.48%
$1,300,000	$1,812	No pension	$1,812	0.14%
$1,346,500	No pension	No pension	N/A	N/A

* based on projected pension rates and assets test thresholds at 1 January 2017.

NOTE: There is an income test and an assets test for the pension. The test that results in the lower pension is the test that applies.
The table above applies only where pension entitlements are calculated based on the assets test.
Pensioners with assets in the ranges above will not be affected by the assets test change if the income test results in a lower rate of pension.

Rebalance the Assets Test - pension impacts for single non-homeowners

This table shows:

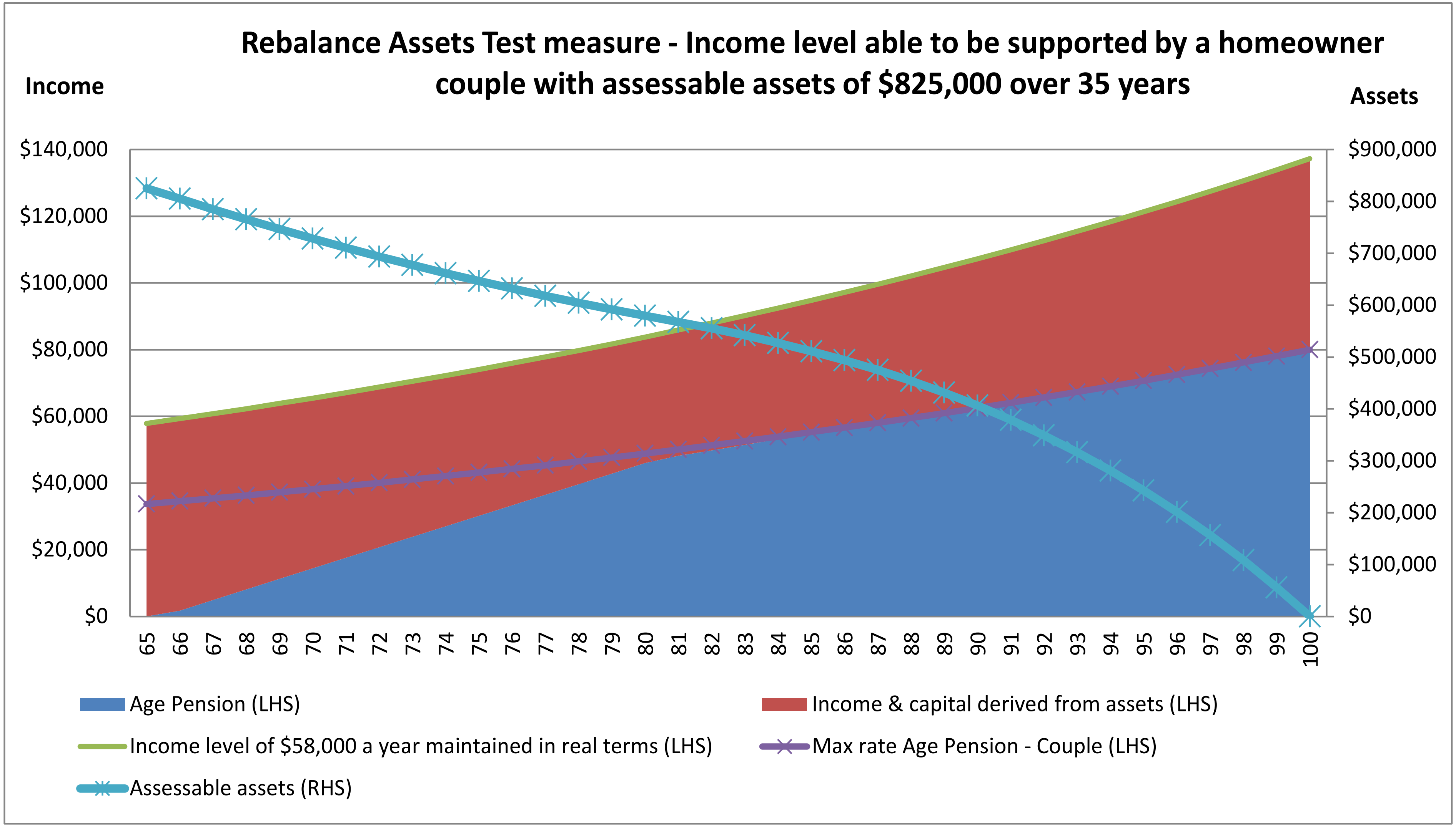
- the amount of pension under the current assets test arrangements and the amount under the *Rebalance the Assets Test Parameters* measure, for a single person who does not own their home
- the change in pension
- the percentage of assets that would need to be draw down to replace any reduction in pension as a result of the *Rebalance the Assets Test Parameters* measure.

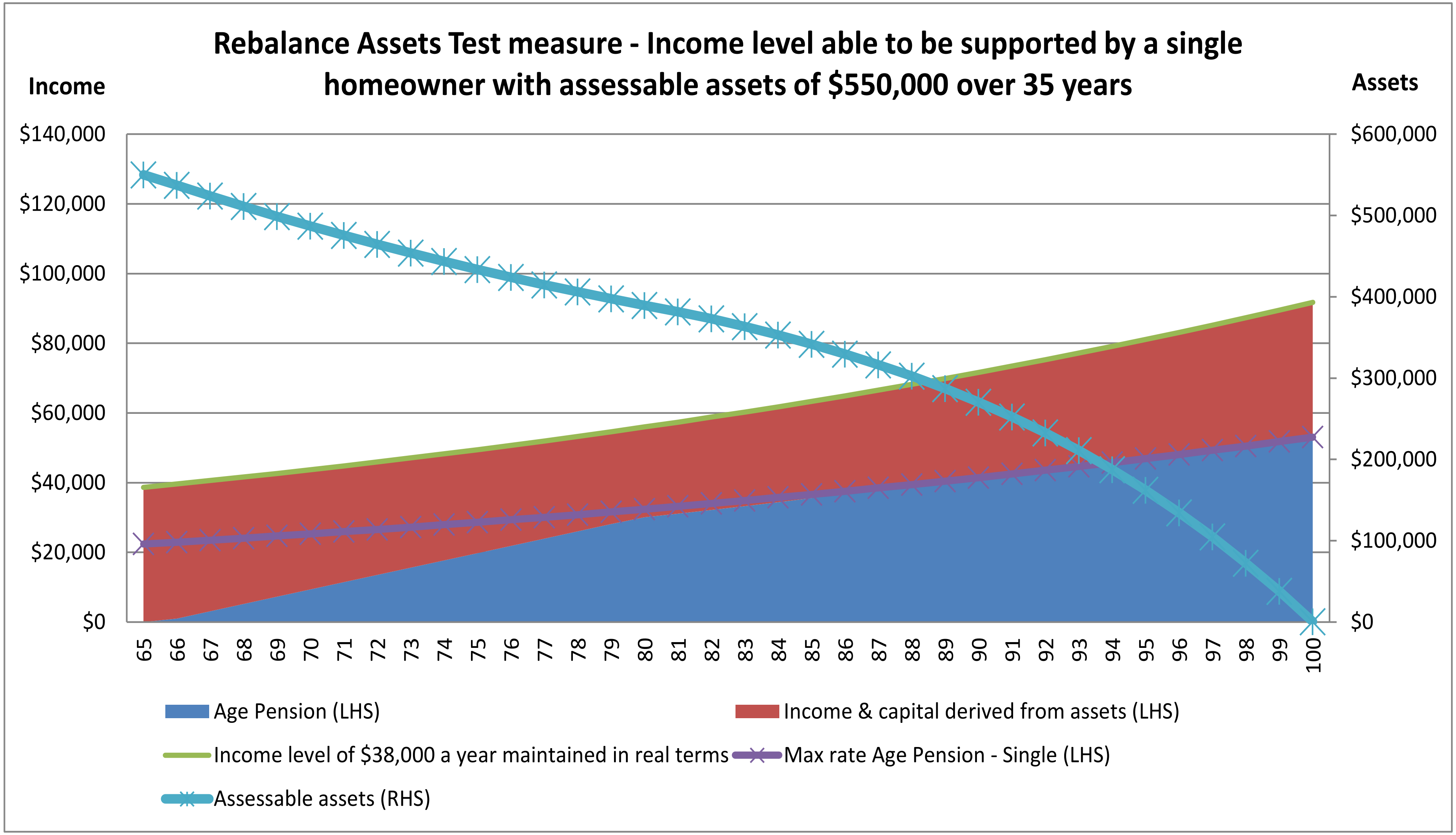
SINGLE NON-HOMEOWNER				
Assessable Assets	**Pension under current assets test rules***	**Pension under *Rebalanced assets test* measure***	**Increase (+) or reduction (-) in pension**	**% of assets required to replace pension**
$100,000	$23,166	$23,166	No change	N/A
$200,000	$23,166	$23,166	No change	N/A
$300,000	$23,166	$23,166	No change	N/A
$400,000	$21,723	$23,166	+$1,443	N/A
$450,000	$19,773	$23,166	+$3,393	N/A
$500,000	$17,823	$19,266	+$1,443	N/A
$537,000	$16,380	$16,380	No change	N/A
$600,000	$13,923	$11,466	-$2,457	0.41%
$700,000	$10,023	$3,666	-$6,357	0.91%
$747,000	$8,190	No pension	-$8,190	1.1%
$800,000	$6,123	No pension	-$6,123	0.77%
$900,000	$2,223	No pension	-$2,223	0.25%
$957,000	No pension	No pension	N/A	N/A

* based on projected pension rates and assets test thresholds at 1 January 2017.

NOTE: There is an income test and an assets test for the pension. The test that results in the lower pension is the test that applies.
The table above applies only where pension entitlements are calculated based on the assets test.
Pensioners with assets in the ranges above will not be affected by the assets test change if the income test results in a lower rate of pension.

Attachment B




Rebalance Assets Test measure - Income level able to be supported by a single homeowner with assessable assets of $550,000 over 35 years
Income
Assets
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100
Age Pension (LHS)
Income & capital derived from assets (LHS)
Income level of $38,000 a year maintained in real terms
Max rate Age Pension - Single (LHS)
Assessable assets (RHS)