Australian Government
Department of Social Services

Serena Wilson PSM
Deputy Secretary

Senator Jonathon Duniam
Chairperson
Senate Community Affairs Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator Duniam

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 (Payment Integrity) Bill 2017.*

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

Yours sincerely

Serena Wilson
18 July ~~August~~ 2017

PO Box 7576 Canberra Business Centre ACT 2610
Email Serena.Wilson@dss.gov.au • Facsimile 02 6293 9692 • Telephone 1300 653 227
National Relay Service: TTY – 133 677, Speak and listen – 1300 555 727, Internet relay – www.relayservice.com.au
www.dss.gov.au

SOCIAL SERVICES LEGISLATION AMENDMENT (Payment Integrity) BILL 2017

This submission by the Department of Social Services provides information on the measures contained in the *Social Services Legislation Amendment (Payment Integrity) Bill 2017*.

The Bill contains three measures announced in the 2017-18 Budget measures in the Social Services portfolio, along with one other measure from the 2016-17 Mid-Year Economic and Fiscal Outlook.

These measures are designed to improve the long-term sustainability of the payments system.

Schedule 1 – Enhanced residency requirements for pensioners

The first measure in the Bill will, from 1 July 2018, strengthen the residency requirements to qualify for an Age Pension and Disability Support Pension (DSP).

Currently, to qualify for the Age Pension or DSP, a person must be an Australian resident for a total of 10 years, with at least five of those years being continuous. There is no requirement for the 10 years to be during a person's working life – 16 years of age to Age Pension age.

The current residency requirements to qualify for an Australian pension are generous when compared to the minimum qualifying contribution periods required to receive a pension in other countries.

A number of OECD countries require greater than 10-years contributions in order to receive even a part pension. For example, Spain requires a minimum of 15 years contributions, Poland requires a minimum of 20 years contributions and Japan requires a minimum of 25 years contributions (non-continuous).

Currently, in Australia, once granted payment, pensioners can spend significant time in receipt of payments. This measure is intended to ensure pensions are better targeted to those people who are committed to Australia, and have resided in Australia for an extended period, including during their working life, or that have been financially self-reliant while in Australia.

The measure also addresses, in part, concerns raised by the Productivity Commission (No. 77, 13 April 2016, Migrant Intake into Australia) regarding the cost of parent migrants who have not resided in Australia during any part of their working lives and are dependent on Australian social security payments to financially support them in their retirement.

Under this measure, from 1 July 2018, a person who qualifies for the Age Pension or DSP will be required to have 10 years continuous Australian residence and either:

- five years of this residence during their working life; or
- greater than five cumulative years residence while not in receipt of an activity tested income support payment.

Where a person does not meet either of the above requirements they will need to have 15 years continuous Australian residence.

Those people who qualify for the Age Pension or DSP on or after 1 July 2018 will need to meet the new residency rules. However, people granted Age Pension or DSP prior to 1 July 2018 who subsequently lose payment will continue to be assessed under the pre-July 2018 residence qualification rules if they later seek to re-apply for payment.

Existing exemptions to the residency requirements will remain, such as for humanitarian entrants or, in relation to DSP, where a person incurs a continuing inability to work after arrival in Australia. Access to Special Benefit will also remain for people who are not eligible for another payment and who experience financial hardship.

The majority of Age Pension and Disability Support Pension claimant (98 per cent) will be unaffected by this measure as they already have the required 10 cumulative years residence and five continuous years during their working life, having being born in Australia and/or lived here for many years

It is estimated that approximately 90 Parent and Partner visa migrants a year will now be required to wait an additional five years before being eligible for Age Pension as they do not have five years working life residence and do not meet the requirement to have not been in receipt of an activity tested income support payments for a cumulative period of five years.

Approximately 2,300 people per year will be delayed from claiming Age Pension or DSP as they do not have 10 years continuous residence.

Schedule 2 – Stopping the payment of pension supplement after six weeks overseas

The second measure in the Bill will cease payment of Pension Supplement after six weeks temporary absence overseas or immediately for permanent departures.

The Pension Supplement is a payment designed to assist income support recipients with the cost of living in Australia. The Pension Supplement was introduced in 2009 and combined into a single payment the value of previous allowances such as Telephone Allowance, Utilities Allowance, Pharmaceutical Allowance and the Goods and Services Tax (GST) Supplement.

The Pension Supplement Basic Amount is equivalent to the former GST supplement and was originally paid to offset the cost increases associated with the introduction of the GST in Australia.

It is currently paid at a rate of $23.00 per fortnight for singles and $37.80 per fortnight combined for couples (as at 20 March 2017).

Currently, where a recipient goes overseas, the Pension Supplement is reduced to the Pension Supplement Basic Amount after six weeks temporary absence or immediately for permanent departures. This measure will, from 1 January 2018, cease payment of any Pension Supplement after six weeks temporary absence or immediately on permanent departure.

Pensioners who leave Australia permanently or who are temporarily absent from Australia for more than six weeks are unlikely to be impacted by the GST. Therefore, there is no economic reason to provide indefinite remuneration to pensioners to assist them to cover the cost of the GST.

This measure will reinforce and strengthen the residence-based nature of Australia's social security system. It will also align the portability arrangements for the Pension Supplement with most other income support payments. This is consistent with the Government's policy position to streamline social security payments and to appropriately target social security assistance to Australian residents in greatest need.

Since the announcement of this measure there have been some incorrect media articles on what impact it will have on pensioners overseas. In particular, media reports have suggested that this measure will stop pension payments to people who have been overseas for six weeks, or that stopping the Pension Supplement Basic Amount will reduce the pensioner's basic rate of pension. This is not the case. A pensioner's basic rate of pension will usually only change at 26 weeks overseas if they do not have 35 years Australian residence between 16 years and Age Pension age. Pensioners receive the Pension Supplement Basic Amount as a component of their fortnightly income support payment, however it is not part of their basic rate of pension.

Stopping the Pension Supplement Basic Amount does not change the portability rules of social security payments and does not affect the ability of pensioners to access social security within Australia.

Schedule 3 – Taper rate for Part A rate of family tax benefit (Method 2)

The third measure in the Bill introduces more consistent income testing of Family Tax Benefit Part A payments for higher income families to help ensure that the benefit is targeted to those most in need.

Currently, there are two different approaches to income testing for higher income families receiving Family Tax Benefit Part A, with the test that results in the higher rate applied:

- the maximum rate income test reduces the maximum rate by 20 cents for each dollar over the Low Income Free Area (currently $52,706).
- the base rate income test reduces the base rate by 30 cents for each dollar over the Higher Income Free Area (currently $94,316).

As a result of this measure, the maximum rate income test taper will increase from 20 to 30 cents for each dollar beyond the Higher Income Free Area – currently $94,316.

Families assessed under the base rate income test are already subject to a 30 cent taper and are not impacted by this measure.

This measure will ensure all families, regardless of how their entitlement is assessed, will have their benefit reduced at the same rate of 30 cents in the dollar once their income exceeds $94,316.

This change will only affect higher income families, who receive a lower rate of payment than lower income families, and are better equipped to absorb the effects of the changes. Low income to middle income families with income below $94,316 will not be affected.

An example of how this measure will affect a family with three Family Tax Benefit Part A children aged under 13, is shown at **Attachment A**.

It is estimated that around 96,700 recipients with income over $94,316 will be impacted. Around 71,800 will have a reduced Family Tax Benefit Part A entitlement and around 24,900 will lose access to the Family Tax Benefit Part A.

Schedule 4 – Liquid assets test waiting period

The final measure in this Bill will, from 20 September 2018, increase the maximum Liquid Assets Waiting Period (LAWP) from 13 weeks to 26 weeks.

The LAWP is an existing waiting period that applies to new claimants of Newstart Allowance, Sickness Allowance, Youth Allowance and Austudy who have liquid assets above a certain threshold. The LAWP reflects a central principle underpinning Australia's social security system which is that support should be targeted to those in the community most in need in order to keep the system sustainable and fair. The LAWP is intended to ensure that those with the means to support themselves do so in the first instance before receiving taxpayer-funded income support payments.

A LAWP applies if the claimant's liquid assets are at or above $5,500 if the claimant is single and has no dependent children, or $11,000 if the claimant is partnered and/or has dependent children.

The length of the LAWP increases in one week increments for every $500 (if single with no dependents) or $1,000 (if partnered or has dependents) of liquid assets above these thresholds. For example, a single person with no dependents and $6,000 in liquid assets would serve a two week LAWP; a single person with no dependents and $6,500 in liquid assets would serve a three week LAWP.

Currently, the maximum LAWP that can apply is 13 weeks. The maximum LAWP applies if a person's liquid assets are at or above $11,500 (if single with no dependents) or $23,000 (if partnered or has dependents). This is irrespective of how much the person's liquid assets exceed these amounts.

Under this measure, maximum LAWP will be capped at 26 weeks rather than 13 weeks. The new maximum 26 week LAWP will apply if the new claimant's liquid assets are equal to or exceed $18,000 for a single person (up from the current $11,500) or $36,000 for a couple or person with dependent children (up from the current $23,000).

Administrative data shows that the level of liquid assets held by claimants has increased over time. In 2008-09, the average amount of liquid assets held by claimants subject to a LAWP was around $31,000. In 2015-16, it was around $47,500.

Additionally, a significant proportion of claimants who serve the current maximum LAWP of 13 weeks have liquid assets that far exceed the point at which the maximum LAWP applies. In 2015-16, the liquid assets held on average by a person serving the maximum 13 week LAWP was in the order of $63,000; with 12.4 per cent of these holding liquid asset reserves above $100,000. This indicates that many claimants have a greater capacity to support themselves than the current LAWP recognises.

This measure will only affect those with greater reserves of liquid assets to draw on to support themselves. The measure will only impact claimants with liquid assets above $11,500 (if single with no dependents) or $23,000 (if partnered or has dependents). Those with low to modest levels of liquid assets below these amounts who either are not subject to a LAWP or have a LAWP of 13 weeks or less will not be affected by this measure.

Approximately 13,800 claimants will be impacted annually

- 2,800 claimants will have their Liquid Assets Waiting Period extended by 1-12 weeks.
- 11,000 will have their Liquid Assets Waiting Period extended by 13 weeks.

On average, affected claimants will be required to wait an additional 10 weeks before receiving payment.

Only the maximum length of the LAWP is changing. The thresholds at which the LAWP applies will remain at $5,500 for single people with no dependent children and $11,000 for couples and people with dependent children. These thresholds are designed to allow claimants to retain a certain level of savings to meet the costs of looking for work or studying or any unexpected expenses that arise.

The existing range of exemptions will also remain in place, including for people who experience severe financial hardship because they have incurred reasonable or unavoidable expenditure. A single person is considered to be in severe financial hardship if the value of their liquid assets is less than their fortnightly maximum payments. For a member of a couple, it is when their joint liquid assets are twice the recipient's fortnightly maximum payment. This exemption ensures that people are still able to access income support if their financial circumstances change and they are no longer able to support themselves.

In addition, full-time tertiary students claiming Youth Allowance or Austudy are able to reduce their liquid assets by certain allowable deductions directly related to their course of study, such as up front course fees, HECS-HELP payments, student union fees, and the cost of text books, tools or equipment required to undertake the course. This will remain in place to ensure that students who work for a period prior to their studies are still able to use their savings to meet their study costs.

People serving a waiting period can volunteer for jobactive for up to six months. This ensures that job seekers affected by this measure will still be able to access assistance to find a job.

ATTACHMENT A