

Senate Community Affairs Legislation Committee

SUPPLEMENTARY BUDGET ESTIMATES – 25 OCTOBER 2018 ANSWER TO QUESTION ON NOTICE

Department of Social Services

Topic: Pension Loans Scheme

Question reference number: SQ18-000513

Outcome Number: 1 - Social Security

Senator: Murray Watt

Type of Question: Written. Hansard Page/s: N/A

Date set by the Committee for the return of answer: 06 December 2018

Question:

- 1) How many people accessed the Pension Loans Scheme (PLS) in 2017-18? What is the average and median amount borrowed? How much did the Pension Loans Scheme cost the Budget in 2017-18?
- 2) How many more people does the Department expect to access the Pension Loans Scheme as a result of the changes announced in the 2018 Budget? How many people are expected to increase the amount of money they access under the Scheme as a result of the Budget measure?
- 3) What proportion of total pensioners are expected to access the Pension Loans Scheme?
- 4) Would taking out a loan under the Pension Loans Scheme impact a persons ability to access aged care? Are the assessed assets based on the remaining value of a person's home after the Loan is repaid to the Commonwealth?
- 5) What is the return to Government from the interest to be charged on the Scheme over forward estimates?
- 6) If a pensioner borrowed \$10,000 under the loans scheme in 2018, and repaid it in 10 years' time, what would the amount to be repaid be?
- 7) What is the borrowing limit under the Scheme?
- 8) How is the interest rate for the scheme set?
- 9) Is it possible for an estate to be left in debt under the Scheme? How often has this happened in the past?

Answer:

- 1) At 30 June 2018, there were 642 participants in the Pension Loans Scheme (PLS). The average amount of outstanding loan (principal plus interest and costs) was \$45,366.85. The median amount of total loan owed was \$30,036.47. The PLS does not impact Government expenditure as it is a loan issued at market rate which is expected to be fully repaid.
 - 2) It is estimated that around 2,000 older Australians will take up a loan in each of the first three years of the expanded Scheme. While participants in the existing PLS will be able to increase the amount of their fortnightly loan plus pension when the expanded Scheme commences on 1 July 2019, an estimate of how many will do so has not been made.
 - 3) Based on the number of pensioners of Age Pension age at 30 June 2018, it is estimated that around 0.10 per cent of age pensioners will participate in the expanded PLS in 2019-20.
 - 4) Taking out a loan under the PLS does not affect a person's ability to access aged care.
- The asset test component of the aged care means test assessment considers net assets. Consistent with the assets test rules for Age Pension, the value of the asset is reduced by any charge, encumbrance or liability held over that asset. When calculating the net value of a person's real estate assets any loan under the PLS held against the property is taken into consideration.
- 5) The projected impact over the forward estimates on revenue (interest accrued on loans) of the announced measure is \$2.65 million. This is based on the estimated take-up of the expanded PLS under the 2018-19 Budget measure and does not take into account existing PLS loans.
 - 6) It is not possible to provide an answer to this question. Please refer to 2018-19 Budget Estimates question number SQ18-000234.
 - 7) There are two caps which limit how much can be borrowed under the PLS.

Fortnightly Limit:

The maximum fortnightly amount of loan plus pension is capped at 100 per cent of the maximum rate of fortnightly pension including the pension and energy supplements, and rent assistance where applicable. Under the expanded Scheme, subject to the passage of legislation, from 1 July 2019 this amount will increase to 150 per cent of the maximum rate of fortnightly pension including the pension and energy supplements, and rent assistance where applicable.

Total Loan Limit:

The total amount of loan plus interest that can accumulate before a person ceases to be able to receive additional PLS payments is determined by a formula specified in section 1135(A) of the *Social Security Act 1991*. The formula has regard to the value of the assets offered by the person as security for the loan and includes an age component amount developed by the Australian Government Actuary. The age component amount has regard to the person's life expectancy and includes a factor reflecting an increase in real estate values which is conservative relative to the long term historical rate of residential property price growth in Australia.

The total maximum amount of the cumulative loan plus interest applying to a PLS participant is re-calculated each year to take account of changes in the value of the asset offered as security and that the age component amount changes on each birthday. The formula for calculating the total amount a person can borrow under the PLS is not changing under the expanded Scheme.

8) As provided by section 1135(4) of the *Social Security Act 1991*, the interest rate for the PLS is set by the Minister for Families and Social Services by legislative instrument.

9) The structure of the PLS generally operates to prevent recipients from borrowing more than they own in housing equity. The formula for calculating the total amount of loan plus interest that can accrue was developed in consultation with the Australian Government Actuary, and is conservative. The PLS interest rate is also less than the rate charged by the financial sector on reverse mortgage loans. Since the PLS started in 1985 there have been no cases of an estate being left in debt due to the amount of a PLS loan owed to the Commonwealth.