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

THE INQUIRY

1.1 On 17 June 2009 the Senate, on the recommendation of the Selection of Bills Committee, referred the provisions of the Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009 (the bill) to the Community Affairs Legislation Committee (the committee) for inquiry and report by 23 June 2009. The reporting date was subsequently extended to 24 June 2009.

1.1 The committee received 15 submissions relating to the Bill and these are listed in Appendix 1. The committee considered the Bill at a public hearing in Canberra on 19 June 2009. Details of the public hearing are referred to in Appendix 2. The submissions and Hansard transcript of evidence may be accessed through the committee's website at: http://www.aph.gov.au/senate/ca.

1.2 The timeframe for this inquiry was very brief. Yet a large number of individuals and groups were able to appear as witnesses at the hearing and to provide submissions or written comments. The Committee is extremely grateful to all those who contributed at such very short notice to the inquiry and offers its sincere thanks.

THE BILL

1.2 The Bill implements key elements of the Government's Secure and Sustainable Pension Reform package announced in the 2009 Budget. Measures include increasing the single maximum basic rates of certain social security pensions, raising the Age Pension age by two years, and the provision of new indexation and benchmarking arrangements.

1.3 The Minister for Families, Housing, Community Services and Indigenous Affairs, the Hon Jenny Macklin MP (the Minister) stated:

> This reform package addresses the adequacy of the pension, makes its operation simpler and more responsive to pensioner needs, and secures its long-term sustainability.
>
> It prepares Australia to meet future challenges, including the ageing population, through amendments to the social security, family assistance, veterans' affairs and aged care legislation.[1]

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1 Second Reading Speech, p.1.

Increased pension payments

1.4 Schedule 1 amends the *Social Security Act 1991* by increasing the single maximum basic rates of certain social security pensions by $1,560.00 per annum on 20 September 2009.[2] The reforms raise the maximum base rate of the pension for single people by $30 a week. In addition, singles will receive an increase of $2.49 per week in the new Pension Supplement, bringing their total increase to $32.49 per week. This increase brings the single rate of the pension up to two-thirds of the combined couple rate. The $10.14 per week increase for couples combined will be provided through the new Pension Supplement. These increases are on top of all existing pensions and allowances.[3]

1.5 The new total weekly pension plus supplement following these reforms will be an estimated $336.68 for singles and $507.50 for couples combined. This totals $17,507.36 a year for singles and $26,390.00 for couples combined. However, the actual figures to apply from 20 September 2009 will depend on indexation.[4]

1.6 The pensions affected by this increase include:

- age pension;
- disability support pension (payable to people over 21 years of age and people under 21 years with a dependent child or children);
- wife pension;
- carer payment;
- bereavement allowance;
- widow B pension; and
- special needs pension.[5]

1.7 The proposed changes do not apply to pension Parenting Payment Single (PPS), Newstart Allowance, the disability support pension paid to people under the age of 21 years without children and a number of other allowances.

1.8 Under Divisions 1 and 2 of Part 2 of Schedule 1, Pension Rate Calculators D and E applying to calculate the rate of disability support pension payable to people who are under 21 years and have a dependent child or children will cease. Instead, the rate of disability support pension for people under 21 years who have a dependent child or children will be calculated under Pension Rate Calculators A and B. The Explanatory Memorandum detailed the effects of this change:

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2 Explanatory Memorandum, p.2.

3 Second Reading Speech, p.2.

4 Second Reading Speech, p. 2.

5 Explanatory Memorandum, p.2.

> Through these amendments, this group of disability support pension recipients will receive the same rate of disability support pension as 'adult' disability support pension recipients who are over 21. These amendments will also mean that single people of this group will benefit from the single maximum basic rate increase provided by new section 1206GE.[6]

New indexation and benchmarking arrangements

1.9 Other measures in the Bill include new indexation and benchmarking arrangements. A Pension and Beneficiary Living Cost Index (PBLCI) which measures increases in living costs faced by pensioner and beneficiary householders will be introduced. It will be used to 'adjust maximum basic pension rates where the movement in the PBLCI is greater than movement in the Consumer Price Index (CPI) for the relevant indexation period'.[7]

1.10 The Explanatory Memorandum details the establishment of the PBLCI and benchmarking to Male Total Average Weekly Earnings (MTAWE):

> The Australian Statistician is developing a new index, the PBLCI, to measure specifically increases in the cost of living experienced by pensioner and beneficiary households. To ensure that pension rates keep up with increases in the cost of living experienced by pensioners, this index is being introduced into pension rate calculations in social security law so that movements in the CPI can be compared to movements in the PBLCI. Maximum basic rates of pension will be indexed in line with the higher of these two indexes before benchmarking to MTAWE.[8]

1.11 Current arrangements will continue to apply in relation to Parenting Payment (Single) and for the Disability Support Pension to people under 21 years of age without children.[9]

1.12 In addition to the PBLCI, a new 'combined couple benchmark' for maximum basic rates will be established at 41.76 cents of the annualised MTAWE figure and will apply to certain social security pensions from 20 March 2010. The Explanatory Memorandum detailed the proposed changes:

> The maximum basic rate of a socials security pension that can be paid to a person who is a member of a couple will be half the maximum combined couple rate of pension.
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> The maximum basic rate of pension for a single person will be 66.33 per cent of the maximum combined couple basic rate of pension. This will

6 Explanatory Memorandum, p.3.

7 Explanatory Memorandum, p.6.

8 Explanatory Memorandum, p.6.

9 Second Reading Speech, p.2.

> result in an effective benchmark of 27.7 per cent of MTAWE for the maximum single rate of pension.[10]

Pension Supplement

1.13 As a means of simplifying pension payments, pensioners will receive two main payments following passage of the Bill: the base pension; and the Pension Supplement.

1.14 The new Pension Supplement detailed in Schedule 4 will increase payments of $2.49 a week for singles and $10.14 a week for couples combined.[11] In addition, the supplement incorporates the value of the existing GST Supplement, Pharmaceutical Allowance, Utilities Allowance and Telephone Allowance.

1.15 In the second reading speech, the Minister detailed the changes:

> The Pension Supplement will be included in the pension payment rate and subject to income and assets testing. This means that, once the base pension rate is reduced to nil, the Pension Supplement will decrease until it reaches a minimum payment of an estimated $790.40 a year for singles (or $15.20 a week) and $1,190.80 a year for couples (or $22.90 a week). The payment a person receives will not fall below the minimum amount of the Pension Supplement until the person's income or assets reach a level that would otherwise reduce their payment to nil.[12]

1.16 Mirroring the new single to couple ratio established for pension rates, the Pension Supplement for a single pensioner will be around two thirds or 66.33 per cent of the Pension Supplement for a couple combined.[13]

1.17 The Pension Supplement will be indexed in March and September each year in line with the increases in the CPI. It will be available to people resident in Australia or temporarily absent from Australia for 13 weeks or less.[14]

Tapering rates and income thresholds

1.18 Schedule 6 will increase the income test taper rate from 40 cents to 50 cents per dollar of income over the ordinary income free area and remove the additional income test free area for dependent children from the calculation of the amount of a person's ordinary income free area. Transitional arrangements will apply for existing

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10 Explanatory Memorandum, p.10.

11 Explanatory Memorandum, p.13.

12 Second Reading Speech, p.3.

13 Second Reading Speech, p.3.

14 Explanatory Memorandum, p.13.

pensioners affected by the changes to ensure current payments rates are maintained in real terms, and that those pensioners also benefit form a pension increase.[15]

1.19 From 20 September 2009, the income test for pensioners will be tightened 'to ensure the pension scheme is sustainable in the longer term, and that increases can be targeted to those most in need'.[16]

1.20 The increased taper rate of 50 cents in the dollar of excess income returns the pensions' income test taper rate back to the rate it was before July 2000.

Age Pension age

1.21 Currently, the qualifying age for age pension for men is 65 years and, for women, 63.5 years. The women's age pension age is progressively increasing and will align that of men's (65 years) on 1 July 2013.[17]

1.22 Under Schedule 11 of the Bill, the qualifying age for Age Pension will increase for both men and women from 65 to 67 years to 'improve the longer-term sustainability of the pension system'.[18]

1.23 To ensure that the changes allow affected individuals time to plan for their retirement, the change will be introduced gradually, with the qualifying age for Aged Pension increasing by six months every two years, commencing 1 July 2017 with implementation complete by 1 July 2023.[19] The effect of this Schedule does not apply to people born before 1 July 1952.[20] The Minister detailed the changes in the second reading speech:

> The change will ensure Age Pension age is adjusted to reflect the significant improvements in life expectancy that have occurred since Age Pension was first introduced in 1909. It will allow the Government to respond to the long-term cost of our demographic challenges. This change will not impact on current Age Pensioners, and will only affect people born on or after 1 July 1952. The phase-in of the increased age mirrors the rate of increase of the pension age for women, which is currently increasing and will reach 65 years on 1 July 2013.[21]

1.24 The pension age for veterans will not be increased under these changes. Whilst the male veteran age will remain at 60 years, the pension age for female

15 Explanatory Memorandum, p.60.

16 Explanatory Memorandum, p.60.

17 Explanatory Memorandum, p.81.

18 Second Reading Speech, p.5.

19 Second Reading Speech, p.5.

20 Explanatory Memorandum, p.81.

21 Second Reading Speech, p.5.

veterans will be gradually increased from the current 58.5 years to 60 years by 2013. However, the pension age for non-veterans under the Veterans' Entitlements Act will increase in the same manner as the qualifying age for Age Pension under the Social Security Act.[22]

Family payment indexation changes

1.25 Under provisions of this Bill, from 1 July 2009, the maximum rates of Family Tax Benefit A will be indexed in accordance with movements in the CPI. For rates of payment for children under 16 years, current benchmarks to the combined pensioner couple rate (which enable benchmarking to MTAWE) will be removed. The Minister detailed the changes:

> The removal of the link to earnings ensures that Government expenditure on family assistance is more sustainable in the long-term. The indexation of maximum payment rates in accordance with movements in the Consumer Price Index will continue to maintain the real value of assistance for families on low and moderate incomes.[23]

Other measures

1.26 Other measures in the Bill include a new 'work bonus' which will provide concessional treatment of employment income under the income test for pensioners over Age Pension age. Under the new rules, employment income will be assessed fortnightly for pensioners over Age Pension age. Half of all employment income (up to a maximum of $500 a fortnight) will be assessed in the income test.[24]

BACKGROUND

1.27 As at December 2008, there were 2,070,300 recipients of the Age Pension.[25] Of persons aged between 65 and 69 years in Australia, the proportion receiving either a full or part rate Age Pension rose from 49 per cent in June 1991 to 64 per cent in June 2008.[26]

1.28 According to the Australian Bureau of Statistics (ABS), the number of people aged 65 to 84 years is projected to grow from 2.4 to 6.4 million between 2007 and 2056. For each person 65 years and over in 2007, there were five working-age people

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22 Second Reading Speech, p.6.

23 Second Reading Speech, p.7.

24 Second Reading Speech, p.5.

25 Harmer, Dr J., *Pension Review Report*, Department of Families, Housing, Community Services and Indigenous Affairs, 27 February 2009, p.148.

26 Australian Bureau of Statistics, *Australian Social Trends, Trends in superannuation coverage*, 4102.0, March 2009, www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/4102.0Publication25.03.098/$File/41020_Superannuation.pdf, (accessed 17 June 2009).

whilst the ABS projected that by 2056, there will be less than three working-age people for every older person.[27]

1.29 In 2008, the Minister commissioned Dr Jeff Harmer to lead a review into measures 'to strengthen the financial security of seniors, carers and people of disability'. The Pension Review Report (Harmer Review) informed the Government in developing reform of Australia's pension income system represented by the Secure and Sustainable Pension Reform package.[28]

ISSUES

1.30 The inquiry focused substantially on key issues including the adequacy of the pension, the tapering rate, indexation, the increase in the Age Pension age, restrictions on eligibility in relation to the pension increase, and the impact of the Bill on single parents.

Adequacy of the pension increase

1.31 Many submitters including UnitingCare Australia welcomed the increases in the pension.[29] Others, however, voiced concerns that the pension increases were inadequate. ACOSS stated that:

> While the outcome of the legislation before the Senate will be greatly improved income support for most pensioners, which we certainly acclaim, it will also result in a less equitable and more complex social security system.[30]

1.32 COTA Over 50s Ltd stated that the increase in the Couple Pension should have 'been at least $19.23 instead of $10.14' and that 'on the two thirds proportion the Single Pension should therefore have increased by $40.20 instead of $32.49.[31]

1.33 Whilst welcoming the pension increase, the Brotherhood of St Laurence argued for greater recognition of the differences between pensioner groups:

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27 Australian Bureau of Statistics, *Australia Social Trends, Future population growth and ageing*, 4102.0, March 2009, www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/4102.0Publication25.03.092/$File/41020_Populationprojections.pdf (accessed 17 June 2009).

28 Minister for Families, Housing, Community Services and Indigenous Affairs, the Hon Jenny Macklin MP and Treasurer, the Hon Wayne Swan MP, *Release of Pension Review Report and Retirement Incomes Report*, Joint Press Release, 12.5.09, www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/pension_retirement_report_12may2009.htm (accessed 18 June 2009)

29 UnitingCare Australia, *Submission 11a*, p.3.

30 Mr P Davidson, ACOSS, *Committee Hansard*, 19.6.09, p.1.

31 COTA Over 50s Ltd, *Submission 2*, p.3.

> …in particular non home owning pensioners have a much greater need for assistance than those who own their own homes and this was not recognised in changes to the pensions system.[32]

1.34 The Brotherhood of St Laurence also argued that the base rate of the single age pension should be increased from 59 per cent of the couples rate to that of 66 per cent.[33]

1.35 The Pension Review undertaken by Dr Jeff Harmer in 2008–09 (the Harmer Review) found that the single maximum rate of pension does not adequately recognise the costs faced by those wholly reliant on the pension to support themselves.[34] The review established that the relativity of the single maximum rate of pension to the couple combined maximum rate of pension is too low and should be in the range of 64 to 67 per cent.[35] Finding 5 stated in this regard:

> The Review finds that a relativity in the range of 64 to 67 per cent across the package of support would be more appropriate than the current relativity. Adopting a relativity towards the upper end of this scale would appear to be reasonable if a three-tier approach were to be adopted. Under a two-tier approach, where the same relativity would be applied to single pensioners living alone and those living with others, a relativity at the lower end of this scale would more adequately reflect the average needs across both these groups.[36]

Exclusion of Parenting Payment Single pension and Newstart Allowance recipients

1.36 Many witnesses raised concerns regarding the proposed changes to the pension in which the pension increase and the Pension Supplement do not apply to Parenting Payment Single (PPS) and Newstart Allowance recipients. The Australian Council of Social Services (ACOSS), Catholic Social Services Australia, St Vincent de Paul Society, Solomums Australia for Family Equity, the Council of Single Mothers and their Children, Victoria, and Uniting Care Australia were amongst the organisations who called for an extension of the pension increase to sole parents on PPS and Newstart Allowance.[37]

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32 Brotherhood of St Laurence, *Submission 9*, p.2.

33 Brotherhood of St Laurence, *Submission 9*, p.3.

34 Explanatory Memorandum, p.2.

35 Explanatory Memorandum, p.2.

36 Harmer, Dr J., *Pension Review Report*, Department of Families, Housing, Community Services and Indigenous Affairs, 27 February 2009, Finding 5, p.23. www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09_10/pension/Documents/Pension_Review_Report/PensionReviewReport.pdf (accessed 17 June 2009).

37 Australian Council of Social Service, *Submission 7*; Catholic Social Services Australia, *Submission 12*; St Vincent de Paul Society, *Submission 1*; Solomums Australia for Family Equity, *Submission 10*; Council of Single Mothers and their Children, Victoria, *Submission 4*; UnitingCare Australia, *Submission 11*.

1.37 The St Vincent de Paul Society noted that the PPS for sole parents with young children has always been paid as a pension and that for the first time, this nexus between pensions for sole parents and other pensioners has been broken.[38] The society continued:

> The St Vincent de Paul Society does not accept the rationale that the Parenting Payment Single is temporary as opposed to other pension categories. Our experience on the ground in providing assistance and support to sole parent families is that the financial stress incurred by income inadequacy creates significant barriers to the future employment participation of the parents as well as contributing to the entrenched exclusion of their children.[39]

1.38 The Council of Single Mothers and their Children, Victoria (CSMC) raised concerns that the pension increases excluded single parents on the PPS or Newstart Allowance and called for the pension increases to extent to both groups.[40] Citing evidence from the ABS, the CSMC noted that single parent families are the 'most disadvantaged families in Australia' and that many 'single mothers are now raising families on the much lower Newstart Allowance, placing them and their children at even greater risk of poverty and deprivation'.[41]

1.39 Ms Thelma Edelsten held a similar concern regarding single parents on the PPS and Newstart Allowance:

> Both categories of single mothers now face more difficult financial times. Those not required to work because they have children under seven will now be required to exist on a pension considered not adequate for other pensioners. Under other recent legislative changes, those with older children must now survive on Newstart, a benefit designed to sustain in the short term only until full employment is found, when the Welfare to Work Legislation itself acknowledges that 15 hours a week will be the limit for many single parents.[42]

1.40 ACOSS held the view that the pension increases should be further extended to allowance payments including Austudy, Abstudy, Special Benefit and Youth Allowance (for those living independently of their parents) which was an initiative not fully explored by the Harmer Review because its terms of reference related to a specific range of pension payments.[43] ACOSS continued:

> It is very clear from research on financial hardship in Australia, and from our own members such as emergency relief providers, that these groups

38 St Vincent de Paul Society, *Submission 1*, p.2.

39 St Vincent de Paul Society, *Submission 1*, p.2.

40 Council of Single Mothers and their Children, Victoria, *Submission 4*, p.3.

41 Council of Single Mothers and their Children, Victoria, *Submission 4*, p.1.

42 Ms T Edelsten, *Submission 5*, p.1.

43 Australian Council of Social Service, *Submission 7c*, p.7.

> face at least the same risk of deprivation, if not a greater one, than age pensioners.[44]

1.41 Solomums Australia for Family Equity (SAFE) held that if current payment rates on the pension cannot adequately support a single age pensioner, 'it is not clear why lower rates of payment are adequate for sole parents, unemployed people and young people'.[45] As an alternative, SAFE recommended:

> Single parent pensioners, Newstart Allowance and Youth Allowance claimants should be paid a percentage increase in line with the aged and disability pension increases proposed in this Bill.[46]

1.42 Similarly, UnitingCare Australia took the view that those on unemployment benefits, single parents, those under 21 years of age on a disability support pension and 'especially people on youth allowance receive significantly less income support and experience ongoing financial hardship and deprivations as a result'. The organisation held that the pension increase should be extended to them.[47]

1.43 According to ACOSS, apart from the payment gap between the single rates of pension (including the proposed supplement) and Newstart Allowance to over $100 a week, denial of the increase to such recipients will:

> …also give rise to greater complexity in the system, and exacerbate work disincentives for people with disabilities. Since Allowances are only indexed to the CPI and pensions are indexed to average earnings, this gap will widen substantially in future years. Given that many people transition between different payments, an increasing gap of this magnitude is not sustainable. Even before the proposed changes were announced in the Budget, it was estimated that in 30 years, Newstart Allowance will be just half the pension rate.[48]

1.44 The ACTU in raising concerns regarding the exclusion of PPS recipients, promoted longer term reform to the income support system which:

> …sets a standard minimum income for all income recipients regardless of the reason for support based on budget standards. This would then be supplemented by specific allowances tailored to the needs of the recipient, eg job search, parenting, etc.[49]

1.45 Whilst the PPS has been paid at the pension rate of payment and using pension means testing arrangements, the Bill in not including the PPS with other

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44 Australian Council of Social Service, *Submission 7*, p.2.

45 Solomums Australia for Family Equity, *Submission 10*, p.5.

46 Solomums Australia for Family Equity, *Submission 10*, p.5.

47 UnitingCare Australia, *Submission 11*, p.2.

48 Australian Council of Social Service, *Submission 7*, pp 3–4.

49 Australian Council of Trade Unions, *Submission 8*, p.2.

pension payments in relation to the $30 pension increase and the increased income test taper rate, will indirectly create a new tier of income support:

> The PPS will be paid at a higher rate than the other allowance payments (such as Newstart Allowance) but at a lower rate than the other pension rate payments.[50]

1.46 The department responded to comments from National Welfare Rights that suggested that sole parents would lose access to the income free area for children under the income test.[51] The department responded:

> They are not making any changes to income tests for parenting payment (single) recipients, so they will continue to be assessed on exactly the same rules as they are now and there will not be any change to their means testing, so there should not be any change to their entitlements if they are on parenting payment (single).[52]

1.47 The department stated that in relation to Newstart, sickness allowance and other allowances:

> …they will continue to be indexed twice yearly in the March and September dates for increases in the consumer price index, so there is no change in relation to them. There is also no change in relation to parenting payment (single). It will continue as now to be indexed to the consumer price index and then benchmarked against male total average weekly earnings to ensure that the maximum base rate equals 25 per cent. They are the same arrangements as exist at the moment.[53]

1.48 In response to concerns that the different models will lead to increases in the gaps between the different payments, the department commented that:

> It would be fair to say that the predominant factor that adjusts pension rates is male total average weekly earnings. The CPI and the new pension beneficiary living cost index will mainly have the affect of ensuring that if prices are higher than wages in the short run pensioners will get the benefit of a full increase to reflect increases in prices, but in the long run that tends to be overtaken by male total average weekly earnings adjustments.[54]

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50 Yeend, P., *Budget 2009–10: Welfare payments, Reforms to pensions*, Parliamentary Library, 28 May 2009, www.aph.gov.au/library/Pubs/RP/BudgetReview2009-10/Welfare_PensionReforms.htm (accessed 18 June 2009).

51 Mr G Thomas, National Welfare Rights, *Committee Hansard*, 19.6.09, p.40.

52 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.49.

53 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.55.

54 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.58.

Tapering rates and income thresholds

1.49 CSMC held that whilst the Bill imposes increases in the pension rate for some classes of recipients, it also imposes harsher taper rates and income thresholds for these payments, arguing that:

> The taper rate is being raised from 40 to 50 per cent, so for every dollar of private earnings a recipient receives, they will now loose 50c of their payment rather than 40c. For recipients who are in the paid workforce, this will result in a reduced level of financial return from their work.[55]

1.50 S.A. Superannuants also raised concerns regarding the increase in the taper rate, describing the proposal as both 'inequitable and punitive' to its members who derive their income principally from defined benefit superannuation pensions.[56] According to the body, the income test taper rate change will see couples with combined private incomes above about $11,700 per annum worse off if their pension commences after the reforms are in place. S.A Superannuants continued:

> In other words the effect of the taper rate change will not be that if just prevents a flow on, it will roll back age pension entitlement for many couples with very modest private incomes and a heavy reliance on the age pension. All these people will be part age pensioner couples with entitlements determined by the income test. On the other hand the fact that the asset test tape rate is to remain unchanged will ensure that the entire amount of the improvement in the base rate flows on undiminished to every asset-tested part age pensioner.[57]

1.51 The Association of Independent Retirees Ltd (A.I.R) held that increasing the taper rate reduces part-age pension and detailed the consequences:

> (i) they have to run down their personal assets more quickly,
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> (ii) they will move to a higher level of part age pension more quickly offsetting any financial gain to government made by the proposed change, and
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> (iii) their standard of living will be reduced towards that of the full age pension (recognised as a safety net level providing a minimum standard of living).[58]

1.52 COTA Over 50s Ltd stated of the taper rate:

> COTA would prefer that the tape not increase but recognises the political/fiscal realities of the long term budget tradeoffs that were

55 Council of Single Mothers and their Children, *Submission 4*, p.4.

56 S.A. Superannuants, *Submission 3a*, p.1.

57 S.A. Superannuants, *Submission 3*, pp 1–2.

58 The Association of Independent Retirees Ltd, *Submission 6*, p.1.

> necessary to achieve this reform. We prefer a higher pension increase with the 50c taper rather than a lower increase with the 40c taper.[59]

1.53 Similarly, ACOSS supported the restoration of the former taper rate in the pension income test and took the view that it was not likely that the proposed taper rate 'will substantially reduce workforce participation among mature age people, especially in light of the proposed higher 'free area' for earned income'.[60]

1.54 The Brotherhood of St Laurence maintained that the Government should introduce a second taper rate for those with 'high private incomes' – from 40 to 60 per cent at twice the current threshold, using a threshold of $480 for both couples and singles.[61]

1.55 CSMC also recognised that the change had been justified on the grounds that it will reduce the level of payments to the 'more well off recipients' on the pension, but held that some categories of recipients including disability would be required to seek paid employment. Of this, CSMC noted that under the Bill, when such recipients enter paid employment, they will retain less of the income for the effort.[62]

1.56 However, COTA Over 50s Ltd held that the new work bonus which 'creates real financial incentives to continue working on a part-time basis' in which half of earnings up to $250 per week will not be taken into account in the income test is an 'excellent initiative'.[63] Similarly, UnitingCare Australia supported the new work bonus on the grounds that it will 'enable aged pensioners to keep more of the money they earn from work, by reducing the effective marginal tax rates faced by age pensioners' but argued that the same principle should apply to incomes earned by people on other income support payments.[64]

1.57 The department commented that the proposed changes, on their own, would mean that some pensioners might otherwise receive a lower rate than they are presently receiving. However, the transitional provisions ensure that all pensioners get an increase and that they cannot be worse off as a result of the changes:

> …the transitional provisions provide for everyone to get an increase, $10.14 for singles or $10.14 combined for couples, and that those payment amounts would be preserved in real terms, that is, they would be indexed to the CPI so that the purchasing power for those pensioners is maintained in real terms and does not reduce. There was some concern that perhaps it would reduce in real terms, but that cannot happen.

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59 COTA Over 50s Ltd, *Submission 2*, p.4.

60 Australian Council of Social Service, *Submission 7,* p.4.

61 Brotherhood of St Laurance, *Submission 9*, p.3.

62 Council of Single Mothers and their Children, Victoria, *Submission 4*, p.4.

63 COTA Over 50s Ltd, *Submission 2,* p.4.

64 UnitingCare Australia, *Submission 11*, p.3.

> The other misapprehension that arose was that there was some time limit on the operation of the transitional provisions and there was some reference to five years. Pensioners will remain on the transitional provisions as long as they need to as long as they are better off on the transitional arrangements compared to the new arrangements. People will not be moved off the transitional arrangements after five years. They will be moved off them as and when they are better off under the new arrangements. That change could occur as a result of a change in circumstances where they are better off. For example, you could say they have a drop in income. They could be better off under the new rules, in which case they will transition to the new rules at that point. Or alternatively, over the passage of time the payments under the new system will be worth more because of the differences in the indexation arrangements and as that occurs people will move across to the new rules.[65]

1.58 In relation to the work bonus and free area in the income test, the department noted that when income exceeds the free area, a person's pension will begin to be reduced. As outlined in the changes to come into effect on 20 September, that reduction will be 50c for every dollar that you earn. The work bonus operates on top of that to reduce the amount of income that is assessed:

> The way the work bonus will operate is that it changes the amount of income that will be counted in your assessment. If you earn $500, instead of counting $500 in your assessment, if you were say a single person it would be $362 over the free area, because we are only going to count half of that income, we will count only $250 in their assessable income which means they will be only $112 over the free area.

1.59 The department went on to comment that many people, particularly people with low levels of savings, looked to work as a way of supplementing their pension and 'if they do want to work we wanted to make sure that they were able to get a return on that and to supplement their pension'. Proportionately it will be greatest for the people earning the lower amounts.[66]

Age Pension age increase

1.60 The Government held that the proposed increase in the Age Pension age is required to meet the challenge of an ageing population:

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65 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.48.

66 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.53.

> It is projected that by 2047 around a quarter of the Australian population, or 7.2 million Australians, will be over the age of 65. This is almost double the current proportion of 13 per cent.[67]

1.61 It was noted that the pension age was originally set at 65 years in 1909 when a man retiring at 65 years of age would have been expected to spend an average of 11 years in retirement. However, by 2017, an average period of retirement is expected to reach 19.5 years for men and 23.5 years for women.[68] COTA Over 50s Ltd acknowledged such evidence, maintaining that the 'demographic argument' for it was clear.[69]

1.62 However, ACOSS argued that the proposed increase in the pension age be opposed 'in the absence of an increase in the superannuation preservation age' and that the preservation age for superannuation should be rapidly increased to equal the current pension age.[70] Whilst supporting the intention behind the proposed age increase, ACOSS argued that the focus should be given in the first instance to encouraging people not to retire before 65 years of age as:

> Currently, only half of people aged 60-65 is employed and only one fifth is employed full time. One of the reasons for this is that people can access their superannuation at 55 years. Although the Henry and Harmer Reviews recommended that the preservation age be raised more rapidly to the pension age, this has not been decided so far.[71]

1.63 Similarly, the Australian Council of Trade Unions (ACTU) maintained that as many workers are unable to continue working until retirement age and access income support prior to receiving the Age Pension whilst others are working longer and seek to mix income sources from work, superannuation and/or pension support. For this reason, the ACTU opposed the increase in the Age Pension age and called for a consultation on transition to retirement to ensure flexible arrangements to accommodate the needs of all employee groups approaching retirement.[72]

1.64 UnitingCare Australia argued that the age increase will 'disproportionately disadvantage people who have experienced barriers to employment during their

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67 Treasurer, the Hon Wayne Swan MP and Minister for Families, Housing, Community Services and Indigenous Affairs, the Hon Jenny Macklin MP, *Secure and Sustainable Pension Reform: Age Pension Age*, Joint Press Release, No. 056, 12.5.09, www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/056.htm&pageID=&min=wms&Year=&DocType=0 (accessed 17 June 2009).

68 Treasurer, the Hon Wayne Swan MP and Minister for Families, Housing, Community Services and Indigenous Affairs, the Hon Jenny Macklin MP, *Secure and Sustainable Pension Reform: Age Pension Age*, Joint Press Release, No. 056, 12.5.09.

69 COTA Over 50s Ltd, *Submission 2*, p.5.

70 Australian Council of Social Service, *Submission 7*, p.2.

71 Australian Council of Social Service, *Submission 7*, p.4.

72 Australian Council of Trade Unions, *Submission 8*, p.1.

working lives' and proposed more flexible arrangements for accessing advances on payments.[73] Whilst arguing that long term reliance on advance payments and emergency relief made people on income support extremely economically vulnerable, UnitingCare Australia called on the Government to monitor and report on advance payments, 'as one way to access the adequacy of income support payments'.[74]

1.65 National Seniors commented that perhaps the most critical matter in relation to increasing the age would be the availability of jobs. Mr Michael O'Neill stated:

> Also, some of the existing ageism and discrimination that exists in the workplace needs to be dealt with. It is no good getting to 2017 and 2023 and changing the rules and there being no jobs. From our perspective, that really needs to be a critical area of activity over the next five to six years, as the case may be.[75]

1.66 A number of witnesses including the St Vincent de Paul Society raised concerns that the increase in the pension age will 'disadvantage lower income mature age people with limited job prospects, who will have to remain on lower income support payments for longer'.[76] COTA commented similarly and noted that:

> …those who are long-term unemployed in their 60s who will be on Newstart allowance for another two years. I would remind the committee that, of people going on to a full age pension in recent years without other income streams, 50 per cent have been coming off another Commonwealth benefit, predominantly either Newstart or disability.[77]

1.67 However, the Harmer Review stated that an increase in the Age Pension age 'needs to be considered as a response to the rapid increase in the life expectancy of Australians and the growing duration of retirement'.[78] It supported an increase in the Age Pension age of two to four years in light of the evidence before it, noting:

> On balance, the Review considers that the force of argument is clearly in favour of a modest rise in the age of eligibility for the Age Pension. In considering the magnitude of any increase the Review noted that taking account of the increase of some five to seven years in both male and female life expectancy between the 1970s and the early 2000s, and projected increases on a further three to seven years by 2050, suggests a total increase over this period of some nine to fifteen years. In this context the Review considered that an increase in the Age Pension age of some two to four

73 UnitingCare Australia, *Submission 11*, p.3.

74 UnitingCare Australia, *Submission 11*, p.3.

75 Mr M O'Neill, National Seniors Australia, *Committee Hansard*, 19.6.09, pp 21, 23; see also COTA Over 50s, *Submission 2*, p.5.

76 St Vincent de Paul Society, *Submission 1*, p.2.

77 Mr I Yates, COTA, *Committee Hansard*, 19.6.09, pp 22, 23.

78 Harmer, Dr J., *Pension Review Report*, Department of Families, Housing, Community Services and Indigenous Affairs, 27 February 2009, p.xi.

> years would represent a reasonable balance in the distribution of this between work and retirement.[79]

1.68 In terms of the timeframe for introducing the changes, Finding 30 of the Harmer Review recommended a phased increase in the Age Pension age:

> The Review finds that there is a case for a phased increase in the Age Pension age starting from 2014, when the Age Pension age for women will be the same as for men. Such a policy would improve retirement outcomes and support Australia's capacity to address the impact of population ageing. It would reflect the strong increases in life expectancy the nation has experienced, which are expected to continue. Any reform would need to be part of a coordinated approach to retirement, including bringing the settings of the superannuation system into line with the Age Pension age.[80]

1.69 The department stated that the age increase was a government decision and that it is broadly consistent with moves in some other countries as well as being 'broadly consistent with movements in life expectancy that we might expect to see over the period that we are talking about'.[81] In response to concerns about availability of jobs for older workers and stated:

> In relation to employment of older workers, a lot of these policies relate to the work of other portfolios. I know that there is a range of measures within the Department of Education, Employment and Workplace Relations looking at assistance for older workers. They and FaHCSIA are also responsible for some measures in relation to employment for people with disabilities, which includes a lot of older workers. There is consideration of these things…The changes are coming in progressively from 2017, which is eight years away, so there will be an opportunity to consider how those programs are operating and what else might need to be done in relation to that.[82]

1.70 The department also noted that since 1995 employment amongst the pre-retirement age is increasing rather than reducing.[83]

Indexation and benchmarking arrangements

1.71 COTA Over 50s Ltd supported the new PBLCI as realisation of arguments of the need to consider living costs of pensioners and other low income earners.[84]

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79 Harmer, Dr J., *Pension Review Report*, Department of Families, Housing, Community Services and Indigenous Affairs, 27 February 2009, p.146.

80 Harmer, Dr J., *Pension Review Report*, Department of Families, Housing, Community Services and Indigenous Affairs, 27 February 2009, Finding 30, p.147.

81 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.54.

82 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.54.

83 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.54.

84 COTA Over 50s Ltd, *Submission 2*, p.5.

1.72 According to UnitingCare Australia, it was unclear how indexation will work under the proposed changes and asked whether income support recipients benefit from the indexation changes. UnitingCare Australia held that:

> If there are benefits to these indexation changes then they need also to be applied to people on other income support payments.[85]

1.73 The Harmer Review found that automatic indexation of pensions and a two-part approach to benchmarking should continue. The review also noted in Findings 8 and 9 respectively:

> …Benchmarking pensions relative to community standards should be the primary indexation factor, with indexation for changes in prices acting as a safety net over periods where price change would otherwise reduce the real value of the pension.
>
> Finding 9: The Review finds that pension indexation for price change would be better undertaken through an index that more specifically reflected cost of living changes for pensioners and other income support recipient households.[86]

1.74 The department provided an overview of the indexation process:

> …there are three factors we look at when we are considering adjustments to the pension. Adjustments to the pension are made twice yearly in March and September. We look at movements in the consumer price index over the six months to June and calculate an adjustment to the pension based on movements in the consumer price index. We then look at movements in the new pensioner and beneficiary living cost index and make an adjustment to the previous pension rate based on the pensioner and beneficiary living cost index...We compare those two numbers and whichever of those two numbers is the better number becomes the index number that we work with. We then compare the index number to the MTAWE benchmark and if the MTAWE benchmark is above the index number we increase the index number to the MTAWE benchmark and that is the number they get…
>
> The way it is going to work for pensioners is that we make these adjustments for a combined couple rate. So, we index the combined couple rate to the pensioner and beneficiary living cost index and compare those two numbers. We then compare the result with 41.76 per cent of male total average weekly earnings. Whichever is the higher of those two is the one that we pay to pensioners. We then pay the single pensioners 66.33 per cent of what we are paying to the couples.[87]

1.75 The department went on to indicate that the beneficiary living cost index is being developed by the Australian Bureau of Statistics. On 30 June, ABS is proposed

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85 UnitingCare Australia, *Submission 11*, p.2.

86 Harmer, Dr J., *Pension Review Report*, Department of Families, Housing, Community Services and Indigenous Affairs, 27 February 2009, Findings 8 & 9, p.54.

87 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.49.

to publish an information paper on how they will develop the index, which will include some times series and some information on how the index will be refined over time.

1.76 The index is being developed for two reasons: first that the index will not just bee applied to age pensions, it includes age pensioners, but it also includes a range of working age pensioners as well, mainly DSP but a few others. The index need to be broader than just age pensioners because people at different ages have different baskets of goods. However, low-income people have some similarities in their patterns of consumption compared with higher income people.

1.77 The second reason is that the ABS does not believe that the analytical living cost indexes are robust enough to use for this purpose. ABS believes that to produce an index that would be robust enough to be used to adjust pensions, further work is required on refining and developing an index.[88]

1.78 The department concluded that age pensioners and other low-income households may be more susceptible to price rises in relation to particular goods than other goods, so they might be more vulnerable to increases in the price of food, for example, rather than reductions in the price of electrical goods. So that 'in the short run an index which is more responsive to their basket of goods ensures that they maintain the purchasing power of their payments in relation to the kinds of goods that they buy. In the long run it might not make that much difference because in the long run things tend to even out.'[89]

Family payment indexation changes

1.79 The St Vincent de Paul Society voiced concerns regarding the Family Tax Benefit indexation:

> We are also concerned that Family Tax Benefit for low income families will no longer be linked to average earnings – only CPI. Family assistance will over time fall behind advances in average living standards. The Family Tax Benefit indexation changes will result in a reduction in assistance for families. Support for raising children alone will no longer increase as wages rise in the future. Additionally, because single parents miss out on the $32 a week increase, in future, pension indexation increases for single parent pensioners will be less than that for other pensioners.[90]

1.80 ACOSS argued against the proposed freeze in the real value of Family Tax Benefit for low income families.[91] ACOSS held that the proposed removal of the link between the maximum rate of Family Tax Benefit Part A and the partnered rate of

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88 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, pp 50-51.

89 Mr A Whitecross, FaHCSIA, *Committee Hansard*, 19.6.09, p.51.

90 St Vincent de Paul Society, *Submission 1*, p.1.

91 Australian Council of Social Service, *Submission 7*, p.2.

pension would 'bring to a close the previous Labor Government's efforts to reduce child poverty by setting benchmarks for the adequacy of family payments'.[92] ACOSS maintained that:

> The maximum rate of payment extends to low income families on around $43,000 or less. These are the families affected by the legislation. Most are jobless though a substantial minority is employed on low pay. Most are sole parent families.[93]

1.81 ACOSS concluded:

> It is inevitable if family payments are frozen in real terms that child poverty will increase; that is if you understand poverty as a living standard that is relative to living standards in the community, that is, poverty that falls behind the living standards of the rest of the community and not having what the rest of the community regards as essential goods and services.[94]

1.82 The Brotherhood of St Laurence was also opposed to the changing indexation arrangements and their proposed linkage to the CPI rather than MTAWE, arguing that such a change will 'erode the value of benefits to low income families over time' and risking an increase over time of the number of children living in poverty.[95]

CONCLUSIONS AND RECOMMENDATION

1.83 The Bill proposes to introduce significant reforms of the pension system which will benefit many older Australians including an increase in pension payments. The new Pensioner and Beneficiary Living Cost Index will be more responsive to changes experienced by pensioner households than the present arrangements and the introduction of the new work bonus will allow those pensioners who choose to work to retain more of the money they earn from work.

Recommendation

1.84 The committee recommends that the bill be passed.

Senator Claire Moore
Chair

June 2009

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92 Australian Council of Social Service, *Submission 7*, p.3.

93 Australian Council of Social Service, *Submission 7*, p.3.

94 Mr P Davidson, ACOSS, *Committee Hansard*, 19.6.09, p.3.

95 Brotherhood of St Laurence, *Submission 9*, p.1.