Social Security and Veterans' Affairs Legislation Amendment Bill (No. 4) 1989

Date Introduced: 2 November 1989
House: House of representatives
Portfolio: Social Security

Digest of Bill

Purpose
The main amendments relate to the treatment of certain deferred superannuation benefits and annuities and borrowings secured by the principle place of residence for the income and assets tests; the rate of pensions; the introduction of a bereavement allowance; increase the rate of unemployment benefit for single, older long term unemployed; and reduce, in certain circumstances, the waiting period in respect of the young homeless allowance.

Background
As the Bill deals with a large number of areas, there is no central background theme. Background information will be provided as each matter is examined in turn.

Main Provisions
Treatment of certain deferred superannuation benefits, annuities etc.
Income and assets tests apply for most social security benefits, such as the aged pension and the family allowance supplement. The income test is based on the definition of income contained in the Social Security Act 1947 (the Principal Act). This gives a wide definition and then lists matters that are not to be taken as income (i.e. a return will be treated as income unless specifically excluded). Included in the definition of income is a deemed amount from certain investments. Basically, where a person makes an accruing return investment or a market linked investment they will be deemed to have received an annual return and this is included in calculating income. The area is further complicated when items included in the definition of income for social security purposes are not included for taxation purposes. This not only leads to confusion, but gives the impression that even the government does not know what is income! As part of the 1989 Budgets retirement income policy, it was announced that the treatment of returns would be standardised. The policy will also aim to remove disincentives to saving for retirement through negative impacts on the income and assets tests of deferred benefits. The Bill will, largely address this problem.
Turning to the amendments contained in the Bill:
Returns (i.e. the notional return) on compulsorily preserved superannuation benefits will not be taken to be income where the person has yet to reach pensionable age (i.e. 60 for a female and 65 for a male) (clause 3). This aims to enable people to acquire such benefits without affecting their eligibility to a range of benefits, such as the family allowance supplement. A complimentary measure will make such benefits actually received before pensionable age part of the calculation of income (proposed section 12BA).

The assets test is based on the calculation of the value of a person's property as contained in section 4. The measure in this area will reflect the changes to the definition of income and will exempt from the test compulsorily preserved superannuation benefits before pensionable age. Like the definition of income, sub-clause 4(1) excludes specific items from the test, including the value of most annuities. However, the value of annuities that may be disposed of, or a substantial part of the income deferred, are included in the calculation of a person's property. To these will be added immediate annuities purchased after 14 August 1989 and annuities that become presently payable after this date (clause 22). The general treatment of annuities will also be changed so that the notional return on the undeducted purchase price will not be included in the calculation of income. This will be accomplished through changes to definitions which will bring certain definitions in the Principal Act into line with those contained in the Income Tax Assessment Act 1936, e.g., the definition and deductible amount; non-assessable purchase price and purchase price) (clause 3).

Borrowings on the principle place of residence
A relatively new financial presentation has stressed the ability to borrow with the security based on the principal place of residence. Such schemes encourage people to use the equity they have developed to raise funds and are principally directed at older people who have developed such an equity in their principal place of residence, and as a result much of the activity in this area has involved retired people borrowing to improve their standard of living. However, under the current definitions such an amount would be included in the income and assets tests. The definition of income will be changed to exclude, from 1 February 1990, up to $40,000 borrowed through security on the principal place of residence. The same limit will apply to single pensioners and married pensioner couples (clause 3). Similarly, such amounts are not to be included in the calculation of the value of a person's property for a period of 90 days.

Aged Pensions
Aged pensions are provided to men over 65 and women over 60, subject to income and assets tests. The pensions are indexed twice yearly and at 30 June 1989 there were 1,334,500 people in receipt of the aged pension. The government announced in the 1989 Budget that, in addition to the indexation increases, the rate of pension would be increased by $2 a week for single people and $3.30 per
week for married couples. The increases will apply from April 1990. The rates of pension will be increased by paragraph 37(g). Clause 36 provides that where a person or their spouse has entered respite care and has remained there for 14 days, or is likely to stay there for this period, the Secretary may direct that the pension payable to a married person will be at the single rate. A pensioner may earn a certain amount of income that is disregarded for the income test. Clause 38 will provide for the indexation of this amount from 1 July 1991. Pensioners are allowed to accumulate earnings credits (i.e. basically the amount they are allowed to earn before the pension is reduced) and this is based on the rate of pension the annual permissible income the person may earn. Clause 29 will introduce a uniform definition of this term based on the maximum rate of pension. Previously, the amount was calculated on the actual pension received.

Bereavement allowance
Currently, a pensioner is entitled to a funeral benefit if they paid for all or part of the funeral costs of a deceased spouse or child. The rate of benefit is generally $40. As well, the person will be eligible for a special temporary allowance for a period of 12 weeks. It was announced in the Budget that these allowances would be combined in the new bereavement allowance and this will be achieved by clause 45 which will repeal the current provisions dealing with the funeral benefit and insert new provisions. Where a member of a pensioner couple dies, the survivor will be entitled to receive, for the next seven pay days, the married rate of pension. The provision also provides for the calculation of the difference between this rate and the single rate and the payment of the difference between those rates over the period as a lump sum. If the person is entitled to a benefit under this section and another benefit, the person must make an election as to which benefit to receive. (public section 66). Similarly, public sections 67 provides that a person in receipt of a carers pension is to continue to be eligible to receive the pension for a period of 14 weeks after the death of the person being cared for. However, the rate of pension is to be dependent on the carers actual circumstances and this may result in a reduction in the rate of the pension. If the person is entitled to a benefit under this section and another benefit, the person must make an election as to which benefit to receive. Public section 68 provides for the continuing receipt of supporting parents benefit for 14 weeks after the death of a child if this means that the person would otherwise cease to be eligible for the benefit. Again, the rate will depend on the persons actual circumstances and an election may have to be made. Similar provisions will apply in respect of the death of a child where the person was in receipt of a child – related payment. Where a single pensioner dies, an amount equal to the amount that the pensioner would have received on the next pay day had they not died, will be payable to such person as the Secretary determines (public section 70).

Older, long term unemployed
According to the A.B.S; in September 1989, approximately 32 700 people over
55 years were unemployed. Unemployment in this category is usually characterised by the person being unemployed for a longer period than average and a large percentage of such people remaining unemployed until they are eligible for the aged pension. This is largely due to the retrenchment of unskilled or semi-skilled workers who have little chance of finding further such employment in a competitive employment market. Paragraph 59(c) of the Bill will amend section 118 of the Principal Act to provide that unmarried people without a dependant who have been receiving unemployment benefits for at least the last six months will receive the benefit at the same rate as the single pension rate. As well, clause 58 will provide that people over 55 who have been unemployed for a continuous period of at least 12 months and are undertaking full-time training, full-time voluntary work or is involved in part-time work in which they earn at least 35% of average weekly earnings, need not satisfy the work test. There will be limits on the time a person may spend engaged in voluntary work or training.

Young homeless allowance
This allowance was introduced in 1986 to assist people aged 16 and 17 who are ineligible for unemployment benefits and are unable to live at home due to domestic circumstances. The rate of the allowance is $27.85 in addition to that received under the job search allowance scheme, and the benefit is subject to a waiting period of six weeks. Clause 56 will amend section 118 of the Principal Act to insert a payment of $95.10 for a person who is not married, under 18, has no dependants and is either homeless or independent. Homeless is defined in clause 56 to be a person who has not lived at home for at least two weeks and whose parents are not willing to let the person live at home, or a person who cannot live at home because of incestual harassment, domestic violence or other exceptional reason, and is not receiving continuous support from another person or income support from the Commonwealth, a State or Territory. An independent person is basically one who has lived away from home for at least 13 weeks and does not receive regular financial support from a parent.

General
The Bill also amends a number of other provisions of the Principal Act. Amongst them, a new Division will be inserted to clarify the treatment of foreign currencies; the requirement for complying with the work test for people under 18 who are undertaking voluntary work or full-time training will be removed in much the same manner as mentioned above (clause 57); increase the amount of rental assistance will be increased (clauses 43 and 46); and provision will be made for the payment of a $50 employment entry payment for those previously receiving the job search allowance.

Veterans' Affairs Legislation
The amendments to this legislation, largely reflect those made to the Principal Act. For
example, the changes to the definitions of income, the calculation of the value of property and the bereavement allowance are also contained in the amendments to this legislation. The other amendments will increase the rate of certain payments due to indexation and will extend the carers pension to non-relatives who care for a severely handicapped veteran (clause 97).

For further information, if required, contact the Education and Welfare Group.

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Bills Digest Service
Legislative Research Service

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

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