Social Security and Veterans' Affairs
Legislative Amendment Bill 1988

Date Introduced: 3 November 1988
House: House of Representatives
Presented by: Hon. Brian Howe, M.P., Minister for Social Security

Digest of Bill

Purpose
To include an annual rate of return for market linked and capital guaranteed investments in the social security and veteran affairs income tests; increase the rate of rent assistance to pensioners and those in receipt of certain other benefits; and to revise the social security reciprocal agreement with New Zealand.

Background
Most of the measures contained in this Bill were announced in the 1988 May Economic Statement (the May Statement) and the 1988–89 Budget. The May Statement and the Budget announced that the social security and veteran affairs income tests would be applied from 1 December 1988 to returns from market-linked and capital guaranteed investments. Market-linked investments are investments which are subject to fluctuations in value because of market forces, e.g. friendly society bonds, public unit trusts, and certain approved deposit funds. It was announced in the 1988–89 Budget that market-linked investments which yield capital growth would have a rate of return calculated on their investment and this return would be counted as income. Previously, market-linked investments were not assessable. If an investment is unlikely to decrease in value through market fluctuations it is regarded as an accruing return investment (or a capital guaranteed investment), e.g. insurance bonds, approved deposit funds, deferred annuities, and variable income annuities. Capital guaranteed investments have been assessed on the 12 month period immediately following the time when the investment matures or a withdrawal is made. They will now be treated in the same manner as market-linked investments.

The changes aim to eliminate the practice where funds are invested in such a way as not to provide an annual return, but with the funds accumulating until maturity. As such investments provide no income, they have no effect on the persons position regarding the income test. This can be compared with other investments where an annual income is attained and this amount is included for the income test. Assessment of returns from capital guaranteed and market-linked investments, for the purposes of the pensions and benefits income test, is estimated to reduce age pension outlays by $1.2 million in 1988–89 and $16.7 million in 1989–90. Additional savings of $0.3 million in 1988–89 and $4.8 million are estimated in service pensions and unemployment benefits outlays.¹
The 1988–89 Budget proposed increased levels of rent assistance for certain pensioners and those in receipt of certain other benefits. The current maximum rate of assistance for general beneficiaries without children is $10 per week. The rate for beneficiaries with children, pensioners and those in receipt of a Family Allowance Supplement is $15 per week. Pensioner and other beneficiary rent assistance rates for those without children will be standardised from December 1989 and increased from June 1990. These proposals are estimated to add $47.4 million to social security and welfare outlays in 1989–90 and $139.1 million in 1990–91.2

Main Provisions

The Social Security Act 1947 (the Principal Act) will be amended by Part II of the Bill (clauses 4 – 20).

Proposed section 12B contains the definition provisions. An ‘accruing return investment’ is generally defined to be an investment that is unlikely to decrease in value through market fluctuations (a capital guaranteed investment). ‘Market-linked investment’s are defined to include an investment in an approved deposit fund, a deferred annuity, a public unit trust, an insurance bond, or a friendly society that is not an accruing return investment.

Proposed section 12C provides that where a person makes or has made a capital guaranteed investment, the current annual rate of return will be treated as income for the income test. However, where a capital guaranteed investment is made before 1 January 1988 with a friendly society, or is of a kind where a return is not available until the end of a period of at least twelve months after the investment was made or until the investment matures, and the person has become entitled to a return, they will be taken to have received one fifty-second of the return per week for 12 months from entitlement.

The pensions and benefits income test will apply from 1 December 1988 to market–linked investments taken out after 9 September 1988 (clause 2). The formula by which the return on market–linked investments will be calculated is based on a ‘product rate of return’. The ‘product rate of return’, which will be deemed to be income for income test purposes, is either the statutory rate of return or a rate of return determined by the Secretary of the Department Social Security (the Secretary) (proposed section 12D). The Minister may set a rate of return of less than 11% per annum and this rate may be varied by a notice which will be subject to Parliamentary disallowance (proposed section 12E). The Secretary may set a rate of return at less than the statutory rate when satisfied that an investment is returning less than the statutory rate. An investment fund manager or a person who holds a market–linked investment may apply to the Secretary for a determination that a lower ‘product rate of return’ than the statutory rate should apply to their particular market–linked investment. The Secretary will notify an investment fund manager when a determination to change a ‘product rate of return’ is being proposed (proposed section 12F).
Under proposed section 12K, investment costs will be offset against any income included due to this Bill.

Decisions on the rate of return will be subject to review by the Social Security Appeals Tribunal (proposed section 12M) and the Administrative Appeals Tribunal (proposed section 12N).

Proposed Division 3 of Part II of the Principal Act (clauses 9 - 19) deals with rent assistance and retirement villages. Rent assistance will no longer be available from June 1989 to pensioners and beneficiaries in respect of rented property that they occupy when they also own a property which they do not occupy. However, there will be exceptions for pensioners and beneficiaries who are residing in a nursing home; those who sell their principal home and are likely to use the proceeds for re-purchase within 12 months; and those who pay for the use of a site or mooring of a mobile home or vessel that is their principal home (clause 9).

From 12 June 1989 people who acquire a right or interest in a principal home in a retirement village will not be eligible for rent assistance if they pay an entry contribution of more than the difference between the assets test limit for property owners and non-property owners. This is an indexed amount, currently $64,000 for either single or married persons. People paying $64,000 or less will be eligible for rent assistance (clause 11).

The Bill provides, for two changes in the rate of rent assistance. From June 1989, the rate for those without dependents will be standardised at $15 per week and the rate for those with dependents will be $20 per week. From 13 June 1990 there will be three rates. The rate for those without dependents will be $20 per week; for those with one or two dependents $25 per week; and for those with three or more dependents $30 per week (clauses 13 - 16).

Clause 17 will provide that the incentive allowance paid to a person who receives a sheltered employment allowance will be increased at the same rate as the amount of rent assistance paid to a person who receives an invalid pension.

Amendments to the Veterans’ Entitlement Act 1986

The amendments to this Act will introduce the same income test to market-linked and capital guaranteed investments held by service pensioners, and provisions relating to residents of retirement villages as explained above (clauses 24 - 27). As well, rent assistance to veterans will be altered in the same way as outlined above (clause 29).
Proposed Schedule 1 will provide for the reimbursement of Australia by New Zealand for pensions paid to former New Zealand beneficiaries who leave New Zealand after 1 April 1988. Australian and New Zealand benefits covered by the agreement will include age, invalid, wife's, career's and widow's pensions, supporting parent's benefit, unemployment, sickness benefits and family allowance. The agreement will provide for the host country to pay benefits from the date of arrival, to people from the other country who intend to stay for more than 26 weeks (article 4). The agreement will continue to bar the payment of unemployment benefit and supporting parent's benefit during the first six months residence in Australia or New Zealand (articles 9 and 10).

References

2. Ibid., p. 144.

For further information, if required, contact the Law and Government Group.

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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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