Date Introduced: 21 August 1984
House: House of Representatives
Presented by: Hon. Neal Blewett, M.P. Minister for Health, representing the Minister for Social Security

Short Digest of Bill

Purpose

To amend the Social Security Act 1947 and the Repatriation Act 1920 to

(a) re-introduce the redrafted version of the asset test legislation first introduced on 7 December 1983; and

(b) to introduce various measures of the 1984-85 Budget.

Background

Age pensions were introduced in 1908 with income and property tests. A merged means test, combining previously separate income and property tests, came into operation on 1 March 1961. Certain groups, (first those over 75 and later those over 70) were exempted from the means test and the property test itself was abolished from 25 November 1976.

In the 1983-84 Budget brought down on 23 August 1983 the Treasurer announced the Government's intention of re-introducing an assets component in assessing entitlement for pensions. Legislation was introduced to the House of Representatives on 7 December 1983. A panel to review the proposed assets test structure was empanelled under Professor Gruen. The Panel reported to the Government in May 1984.
Assets Test.

A pensioner's principal place of residence is exempt from the assets test. In addition single pensioner home-owners do not have the first $70,000 of other assets included in the test. For home-owning couples the exemption threshold is $100,000. For non home-owners the threshold figures are $50,000 higher. Assets above these threshold limits will reduce pensions by $2 per week for each $1,000 of non-exempt assets.

The threshold limits will be indexed. Pensions will be subject to an income or an asset test but not both. The test which reduces the pension by the largest amount will apply.

Blind pensions, unemployment and sickness benefits, war widows pensions and repatriation disability pensions are exempt from the test.

The first pension payment to be affected by the test will fall due on 21 March 1985.

Budget Measures.

Increases in pensions and benefits are usually automatically covered by indexation provisions. However, as the Consumer Price Index did not rise in the relevant period (December Quarter 1983 to June Quarter 1984) the rises ($2.50 per week for single and $4.20 for couples) in basic rates have to be introduced as amendments to legislation. The prospective above indexation rise ($2 per week) for single adult unemployment beneficiaries without dependants in May 1985 also requires separate amendment.

The November 1984 rises in maximum rent assistance and sheltered employment incentive allowance ($5 per week), the rise in payment for dependants of pensioners/beneficiaries and family income recipients ($2 per week), the rise in mother's/guardian's allowance ($2 per week) all require separate adjustments to legislation.

Unemployment benefits for those under 18 without dependants are not indexed. The $5 per week rise for those in continuous receipt of income security payment for 26 weeks requires separate amendment also.

In terms of the Repatriation Act 1920 the relevant basic rates, rent allowance and dependent allowances are
also increased. Rates for attendant allowances and for additional payments relating to disablement are also increased.

Main Provisions

Assets Test.

Generally speaking all income from either within or outside Australia is included but some specific types of payments or income are excluded. For example the value of emergency assistance, payments under the Homeless Persons Assistance and Handicapped Persons Assistance Acts, insurance compensation for property damage, service pensions under the Repatriation Act, and some trainee allowances are excluded from the test (Explanatory memorandum pages 9 to 11).

The valuation of property is covered by Clause 35. There is a list of exemptions (memorandum pages 21 and 22) ranging from contingent or reversionary interests to a cemetery plot. The value of property taken into account is reduced by any outstanding charges or encumbrance. The value of land, used for domestic purposes, surrounding a home will generally be exempt with a maximum of 2 hectares. The value of house contents and personal effects will be assumed to be $10,000. If a person can show the value to be a lesser amount, this lesser value will be used. If the value exceeds $10,000 the higher value would be used.

Provision is made (new sub-section 6AA(8)) for the exemption of the value of a principal residence for people temporarily absent from it. The general period of exemption is one year which rises to a maximum of two years for those in specified forms of institutional care.

For those who would normally be subject to the assets tests and who have assets over $100,000 but in a form that is illiquid the legislation (new sub-section 6AB) sets up a loan scheme. The scheme will pay an income tested pension and recover from a person's estate the difference between what would have been paid under the assets test and what was actually paid, together with an allowance for interest.

Limitations are placed on disposal of income or property under new sub-section 6AC. The intention of these rules is that they apply only where insufficient compensation is received or where the purpose is simply to qualify for a higher rate of benefit. From 1 June 1984, (the date of the Ministerial Statement) any disposal of
property, without adequate consideration, above $4,000 for a married and $2,000 for a single person will be included in the calculation of a person's assets. The value of these distanced assets will be reduced by 10 per cent each year so that after 10 years there would be no amount included. Specific provision is made for those who dispose of property and later divorce or marry (new sub-sections 6AC(6) - 6AC(8)). Two general rules about disposal apply to those becoming eligible for pensions (new sub-section 6AC(9)). The first is that disposal less than five years before becoming eligible for a pension will be taken into account; the second rule qualifies the first rule if a person could not reasonably have expected to receive a pension for example, by becoming an invalid or a widow.

Situations where people affected by the assets test are in severe financial hardship but do not wish to use the loan scheme are covered by new sub-section 6AD. Under this section the value of property which cannot be sold or used as security for a loan (or which it would be unreasonable to expect the person to sell or use as security for a loan) will be disregarded. The rate of pension paid will depend on other non-disregarded income and property.

The threshold levels of property value before the rate of pension is affected (called reduction amounts) are set out in new sub-section 6AE. These levels are: for a single person who has the value of the principal home disregarded $70,000 and for those who do not have the value of a principal house disregarded $120,000; for a married person who has the value of a principal house disregarded $50,000 (i.e. $100,000 per couple) and for a married person who does not have the value of a principal house disregarded $75,000 (i.e. $150,000 per couple). The levels will be indexed annually from May by reference to movements in the December Quarter Consumer Price Index. The first increase will apply from May 1986.

The rate of pension paid is covered by Clause 37. The assets test will reduce the amount of fortnightly pension paid by $1 for each complete $250 of includable assets.

Sub-section 28(IEA) deals with the reduction of pension levels for couples and the new sub-section 29 with reduction of income in respect of a dependent child. The latter change is to give effect to the intention of allowing relevant couples with dependent child/children higher income before their pension is reduced.

Supplementary (rent) assistance, under clause 39(b), will not be available to those subject to the assets
test rather than the income test. In order to be subject to the assets test a single pensioner without a principal home would need to have assets in excess of $120,000.

The assets test will apply to both wife's pension and to spouse carer's pension, clauses 40 and 41.

Clauses 43 to 48 deal with the assets test and widows and supporting parent beneficiaries. Clause 49 deals with fringe benefit entitlements setting out indexed asset limits. These limits are $10,000 above the assets test threshold for singles and $15,000 for couples.

Clauses 53 to 64 relate to Service pensions and related benefits. Clause 61 repeals Section 121 of the Principal Act and inserts new sections on information gathering, self-incrimination and so on. These sections conform to relevant sections of the Social Security Act.

The assets test will affect pensions on and from 21 March 1985. Deprivation provisions apply from 1 June 1984 (clause 51). Clause 52 deals with transitional arrangements relating to when a 'period of absence' commences and the timing of applications for the pension loan scheme.

Further details are available in the Explanatory Memorandum, a guide issued by the Department of Social Security and from a reverse-charge, operator connected 'hot-line' number in each State.

For further information, if required, contact:

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Education and Welfare Group
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