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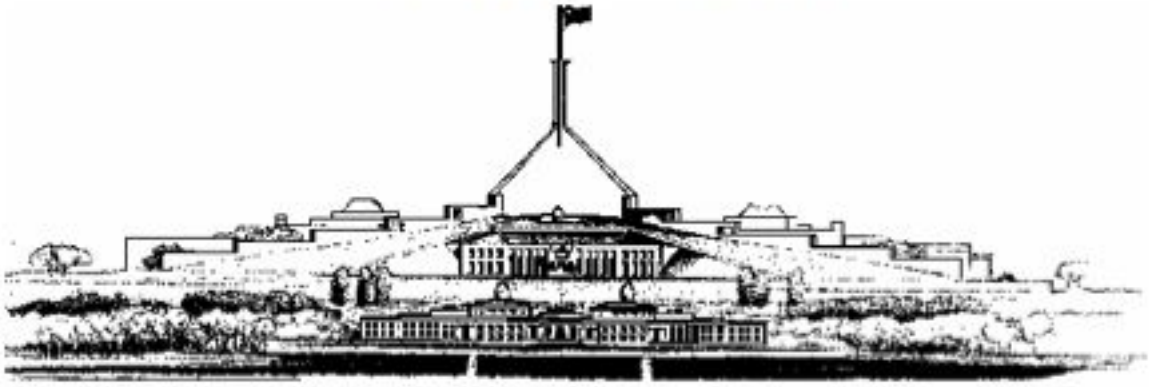

HOUSE OF REPRESENTATIVES

SOCIAL SECURITY AND OTHER LEGISLATION AMENDMENT (PENSION REFORM AND OTHER 2009 BUDGET MEASURES) BILL 2009

Second Reading

SPEECH

Monday, 15 June 2009

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Monday, 15 June 2009	**Source**	House
Page	5851	**Proof**	No
Questioner		**Responder**	
Speaker	Macklin, Jenny, MP	**Question No.**	

Ms MACKLIN (Jagajaga—Minister for Families, Housing, Community Services and Indigenous Affairs) (12.03 pm)—I move:

That this bill be now read a second time.

This bill implements key elements of the government's secure and sustainable pension reform package announced in the 2009 budget.

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 social security, family assistance, veterans' affairs and aged-care legislation.

In addition to providing significant increases in pensions, the reforms will make the pension system simpler, fairer and more flexible.

Australia's 3.3 million age pensioners, disability pensioners, carers, wife and widow B pensioners, bereavement allowance, special needs pension and veteran income support recipients will benefit from increases in their pension payments.

The pension reform measures in this bill implement the reforms to social security and aged-care laws. A further bill, to be introduced at a later date, will deliver the pension reform measures for veterans and their dependants.

Most of the pension reforms, including the important pension increases, will be introduced from 20 September 2009. Other measures will commence on the dates as specified.

Increased pension payments

From 20 September 2009, the secure and sustainable pension reforms will deliver total increases of $32.49 a week for singles who receive the maximum rate of pension, and $10.14 a week combined for couples on the maximum rate.

These increases are on top of regular indexation due in September. The total increase will comprise a rise in the base rate for single pensioners and a new, and increased, pension supplement for all pensioners. This increase brings the single rate of the pension up to two-thirds of the combined couple rate.

The maximum base rate of the pension payable to single people will be increased by $30 a week. In addition, singles will receive an increase of $2.49 a week in the new pension supplement, bringing their total increase to $32.49 a week. The $10.14 a week increase for couples combined will be provided through the new pension supplement. These increases are on top of all existing pensions and allowances.

Following these reforms, the new total weekly pension plus supplement will be an estimated $336.68 for singles and $507.50 for couples combined. This amounts to $17,507.36 a year for singles, and $26,390.00 for couples combined. The actual figures to apply from 20 September will depend on indexation. Actual cost of living increases and wages figures are not yet available.

New indexation and benchmarking arrangements

New indexation arrangements will be introduced to better reflect cost of living increases for pensioners. As part of the government's reform package, a new pensioner and beneficiary living cost index will be calculated by the Australian Bureau of Statistics. This new index will measure increases in the living costs faced by pensioner and beneficiary households, which can be different to those faced by other households.

The new living cost index will be more responsive to changes experienced by pensioner households where the living costs may have moved faster than the rate of changes measured by the consumer price index for the living costs of all households. From 20 September 2009, the maximum base rate of relevant social security and veterans pensions will be adjusted in line with either the consumer price index or the new pensioner and beneficiary living cost index, whichever is the higher.

Pension rates will also continue to be benchmarked to male total average weekly earnings.

From 20 March 2010, a new pension benchmark for the maximum combined couple rate of pension will be introduced. It will be 41.76 per cent of the annualised amount of male total average weekly earnings.

For a person being paid a single rate of pension, the maximum rate payable to that person will be set at 66.33 per cent of the maximum rate payable to a combined couple. Therefore, the new benchmark for the maximum single rate of pension will be 27.7 per cent of male total average weekly earnings, an increase of more than 10 per cent from the current 25 per cent benchmark.

Current arrangements will continue to apply for parenting payment (single) and for the disability support pension paid to people under age 21 without children.

New pension and seniors supplements

The range of supplementary payments and allowances currently paid to pensioners will be simplified and made more flexible through the introduction of a new pension supplement.

This will help make pension payments easier to understand. Following the reforms, pensioners will receive two main payments: the base pension and the pension supplement.

This new pension supplement incorporates the value of the existing GST supplement, pharmaceutical allowance, utilities allowance and telephone allowance (at the higher internet rate). Increases of $2.49 a week for singles and $10.14 a week for couples combined will be paid on top of the value of existing allowances.

The pension supplement will be indexed in March and September each year in line with increases in the consumer price index. It will be available only to people resident in Australia or temporarily overseas.

The pension supplement for a single pensioner will be around two-thirds, 66.33 per cent, of the pension supplement for a couple combined. This mirrors the new single to couple ratio established for pension rates.

At 20 September 2009, it is estimated the pension supplement will be worth up to $1,462.70 a year for singles (or $28.13 a week) and $2,199.60 a year for couples (or $42.30 a week). This is an estimate as the actual indexation increase is not yet known.

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.

The new pension supplement will provide pensioners with more flexibility in managing their own budgets.

From 20 September 2009, the pension supplement will be paid fortnightly, along with the base pension. From July 2010, pensioners will have the choice of receiving around half of the pension supplement in quarterly instalments. This flexible part of the pension supplement will be equal to the minimum payment of pension supplement.

Self-funded retirees will also benefit from these reforms. A new seniors supplement for holders of a Commonwealth seniors health card will be introduced from 20 September 2009. The seniors supplement will replace the seniors concession allowance and telephone allowance (at the higher internet rate) for eligible recipients. The seniors supplement will continue to be available as a quarterly payment and will be paid at the same rate as the minimum amount of the pension supplement. The seniors supplement for a single person will

be 66.33 per cent of the seniors supplement for a couple combined. In September 2009, the seniors supplement will be an estimated $790.40 a year for singles and $1,190.80 a year for couples.

Increases in the pension supplement minimum amount for couples combined and for singles will flow through to increases in the seniors supplement. This will mean pensioners cannot receive less supplement than eligible self-funded retirees.

Change to the pension income test

As part of the secure and sustainable pension reform package, the pension income test will be tightened. This will help ensure the pension system is sustainable in the longer term, and that increases can be targeted to those most in need. These changes apply to recipients of social security age pension, disability support pension, wife pension, carer payment, widow B pension, bereavement allowance and special needs pension. This change does not apply to recipients of parenting payment (single).

From 20 September 2009, the pension income test taper rate will increase from 40c to 50c for each dollar of income over the income test free area. Under the new rules, where a pensioner has ordinary income over the income test free area, their rate of pension will reduce by 50c for each dollar of income above the free area. In the case of a pensioner couple, their combined pension will reduce by 50c for each dollar of income (combined) over the income test free area. Pensions paid to each partner will reduce by 25c for each dollar of income (couple, combined) over the income test free area.

To bring the pension income test into line with other means-tested payments, including allowances and family assistance, the additional income test 'free area' for dependent children will be removed.

Transitional arrangements will be put in place to protect existing pensioners who would otherwise have faced a payment reduction because of the changes to the income test. The transitional safety net will ensure that current payment rates for part-rate pensioners are maintained in real terms, with indexation in line with increases in the consumer price index, and that they benefit from an increase of $10.14 per week for singles or couples combined. They will continue to receive these existing entitlements, including the increase, until they are better off under the new pension rules, including the new 50c income test withdrawal rate.

New 'work bonus'

Some pensioners choose to take up paid work to supplement their pension. A new work bonus will be introduced to help age pensioners keep more of the money they earn from work. The work bonus will provide concessional treatment of employment income under the income test for pensioners over age pension age.

Under these new rules, employment income will be assessed fortnightly for pensioners over age pension age. Only half of all employment income (up to a maximum of $500 a fortnight) will be assessed in the income test.

For example, a single age pensioner who works part time with a fortnightly income of $500 will have only half of their income, or $250, from this job assessed under the pension income test. This means that the pensioner will be up to $125 per fortnight better off just as a result of the new work bonus, even after taking into account the tightening of pension income test rules.

Further amendments in the bill are made to close the Pension Bonus Scheme. The introduction of the scheme in July 1998 was intended to encourage older Australians who would otherwise retire and claim age pension to remain in the workforce and defer claiming the payment. The Harmer pension review found the scheme is not meeting its objective of encouraging workforce participation among older Australians. As a result, it will be closed to new entrants from 20 September 2009. Existing members of the scheme will be able to remain in the scheme and claim a pension and their bonus when they finish working.

Age pension age

As part of these reforms, and to improve the longer term sustainability of the pension system, the qualifying age for age pension will increase for both men and women from 65 to 67 years. This will be done on a gradual basis, with the qualifying age for age pension increasing by six months every two years, commencing on 1 July 2017 and will be fully implemented on 1 July 2023. Phasing the change in over this period will allow affected individuals time to plan for their retirement.

The change will ensure age pension age is adjusted to reflect the significant improvements in life expectancy that have occurred since the 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.

The pension age for veterans will not be increasing as a result of these changes. The male veteran age will remain at 60 years. Pension age for female veterans is currently 58½ years and is gradually increasing to align with male veteran pension age of 60 by 2013. However, the pension age for nonveterans under the Veterans' Entitlements Act will increase in the same manner as the qualifying age for age pension under the Social Security Act.

More flexible advance arrangements

Existing arrangements for advance payments will be improved, to give pensioners greater access to advances of certain social security payments. Advance payments are lump sum prepayments of a pensioner's entitlements, which are repaid in instalments from future pension payments. The improvements will increase the maximum allowable advance from $500 to around $1,000 for singles and $1,500 for couples combined. The actual maximum advance amounts will be linked to movements in social security pension rates. They will also enable pensioners to access more than one advance in any 12-month period. The changes will modernise the advance payment system to better reflect the needs of pensioners, helping them meet large or unexpected expenses.

Pension reform implications for aged care

As our population ages, it is vital that we support a strong residential aged-care sector that provides appropriate care for frail older Australians. It is also important that those older Australians who reside in aged-care facilities have some money left after paying their fees.

The government has decided to share the pension increase between aged-care providers and pensioners. This ensures that pensioners in aged-care homes are able to benefit from the pension increase, while at the same time recognising that care providers also need additional funding to contribute to the costs of services such as nursing care, food and cleaning.

Of the pension increase for singles, $10.09 per week will flow to the pensioner and $22.40 per week will flow to the residential aged care provider through an increase to the basic daily fee.

As the daily fee charged to self#funded retirees is linked to the amount of the age pension, an increase in the age pension would normally mean the fees faced by self#funded retirees would increase.

The government recognises that a sudden cost increase for existing self#funded retiree residents would be an unfair burden, and has decided that those self#funded retirees in residential aged care on 19 September 2009 will have their existing fee levels protected until they leave. Those who enter aged care after this date will have any cost increase phased in over four years.

The arrangements for self#funded retirees will also apply to part#rate pensioners who do not benefit from the pension increase.

During this period, aged-care providers will be compensated by the government, through a new top-up supplement, for any difference between the actual fee paid by these new part-rate pensioners who may not receive the full pension increase and by self-funded retirees and the new standard basic daily fee—that is, the difference between the phased rate and the standard rate.

A combination of increased fees paid by residents and the new top-up supplement represents an increase of $713.2 million over four years for the aged-care sector. This will be available to meet the rising costs that aged-care providers face. At the same time, pensioners will have extra money to meet their out-of-pocket expenses.

Changes to family payment indexation

The government is taking important steps to reform family payments to make them more sustainable for the long term. As part of these changes, from 1 July 2009 under provisions of this bill, the maximum rates of family tax benefit part A will only be indexed in accordance with movements in the consumer price index. For rates of

payment for children under 16 years, current benchmarks to the combined pensioner couple rate (which enable benchmarking to male total average weekly earnings) will be removed.

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. In a tight fiscal environment, savings from reduced expenditure on family tax benefit can be directed to funding other priorities, such as the secure and sustainable pension reforms. Australia's spending on family payments is generous by international standards. The most recent analysis shows our spending on cash family benefits was equal third highest in the OECD, at 2.2 per cent of GDP, well above the average of 1.3 per cent.

The indexation date for the maternity immunisation allowance will be changed from twice a year to once a year. In line with other family payments, the maternity immunisation allowance will now be indexed on 1 July. The first annual indexation will occur on 1 July 2010.

Other measures

Recipients of social security and veterans entitlements payments, who receive payments under certain Western Australian programs, will have these amounts excluded from the income test for the purposes of calculating their rate of payment. The Western Australian programs are the Cost of Living Rebate Scheme and the Country Age Pension Fuel Card. The income test concession will start on 1 July 2009 and end on 30 June 2012.

The bill also includes amendments relating to the adjusted taxable income test for the Commonwealth seniors health card, whether issued under the Social Security Act or the Veterans' Entitlements Act. The amendments will include in adjusted taxable income any reportable superannuation contributions, including income salary sacrificed to superannuation. These amendments are relocated from the Social Security and Veterans' Entitlements Amendment (Commonwealth Seniors Health Card) Bill 2009, currently before the parliament, but which will be withdrawn. The measure is consistent with changes that have been legislated in respect of a range of pension and allowance income tests, and arrangements that have existed for the age pension for some time.

To better support pensioners who are studying to improve their qualifications, the portability conditions for full-time students on Austudy and youth allowance will be extended to other income support payments. This will apply to a person receiving disability support pension, parenting payment, carer payment, widow B pension, wife pension, partner allowance or widow allowance. If the person is in full-time study and continues to meet the qualification conditions for their payment, they will be entitled to go overseas for more than 13 weeks to study as part of their full-time Australian course.

The bill will also amend schedule 2 to the Veterans' Entitlements Act to include a new operational area. This will give Defence Force members allotted for duty in the new operational area during the relevant dates access to pensions and benefits available under the Veterans' Entitlements Act.

Conclusion

This government has acted to introduce long-overdue reforms to significantly improve the adequacy of the pension and to make the pension system simpler and fairer.

Reforms to provide long-term security and certainty, and to ensure that, over time, the pension system remains both adequate and sustainable.

Reforms which tackle the reality of the ageing population and the challenges this presents.

Reforms to adapt to changing circumstances, while maintaining the system's enduring strength.

Reforms to guarantee an adequate and sustainable standard of living for the aged, carers, veterans and people with disability who rely on the pension to survive.

I commend the bill to the House.

Debate (on motion by **Mr Forrest**) adjourned.