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Australia’s pensioners have been instrumental in building our nation through tough times and good. They need and deserve a pension system that provides them with adequate financial support and security.

The Government is delivering on its commitment to reform the pension system, to provide greater financial security to Australia’s 3.3 million age, carer, disability, war widower and service pensioners.

The Government’s $14.2 billion pension reform package will:

• ensure that pensioners receive an adequate level of support, with a minimum payment increase for all pensioners and greater ongoing certainty about payments

• make the pension system simpler to understand and more flexible, so that pensioners can plan and budget more effectively and securely

• build a pension system that is sustainable, both now and into the future.

The reforms are principally focused on addressing the inadequacy of the single pension. Tough decisions have been necessary to ensure the pension system is sustainable and provides an adequate safety net for all Australians into the future.

The package will also provide additional support of $1.8 billion to Australia’s 500,000 carers, recognising the important role they play.
What this means for pensioners

A pension boost and greater financial security

Pensioners who receive the Age Pension, Disability Support Pension, Carer Payment, Veterans' Service Pension, Income Support Supplement, War Widow/ers Pension, Bereavement Allowance, Wife Pension, and Widow B Pension will all benefit from pension reform.

Under the new arrangements the Government will provide an additional:

- $32.49 a week for single pensioners on the full rate of pension
- $10.14 a week for pensioner couples (combined) on the full rate of pension.

This brings the single rate of pension up to two-thirds of the combined couple rate. From 20 September 2009, the maximum assistance for single pensioners will increase from around $304.19 per week to $336.68 per week and for pensioner couples from around $497.36 per week to $507.50 per week.

Streamlined payments with greater flexibility

Pension payments will be simpler to understand and more flexible. The Government will simplify the payments system under the new arrangements by incorporating four existing fortnightly and quarterly allowances into a single fortnightly Pension Supplement.

From 1 July 2010, pensioners on the new arrangements will have the choice of receiving about half of the Pension Supplement on a fortnightly or quarterly basis. The Government will also improve flexibility by improving the existing arrangements for accessing advance pension payments.

A sustainable pension

Tough savings decisions have been necessary to make pension reform affordable. All of us, young and old, have an interest in ensuring a strong safety net, now and into the future.

To respond to the long-term cost of demographic change, and to reflect improvements in life expectancy, the Government will progressively increase the qualifying age for the Age Pension to 67 beginning in 2017.

The Government will also change the pension income test eligibility rules to ensure the largest pension increases are targeted to those who need them most.

The new pension system will see:

- pensions increased to provide more help
- changes to ensure pension increases go to those most in need
- current pensioner allowances rolled into a new Pension Supplement paid fortnightly
- more flexible access to pension payments
The Harmer Pension Review

The Harmer Pension Review undertook a comprehensive review of the pension system. The Government has used the findings of the Pension Review to shape the pension reform package.

Key findings of the Harmer Pension Review addressed through pension reform

- Single full rate pensioners should be a priority for reform. The existing single rate of pension does not adequately recognise the costs for those wholly reliant on the pension to support themselves.
- The relativity of the rate of pension for singles to that of couples is too low and should be in the range of 64 to 67 per cent.
- The payment of existing supplements and allowances could be simplified by integrating them into either a pension supplement or the base rate.
- Pension payments should be tied to changes in the actual cost of living faced by pensioners.
- There is scope to target pension increases more to those who have little or no private means.

Consistent with international developments, there is a strong case for increasing the Age Pension age to reflect improvements in life expectancy, and the increased length of time that Australians can expect to spend in healthy retirement.

The Government has reviewed the pension system to understand what matters most to pensioners.

The Harmer Pension Review found that single pensioners are most in need of a pension increase.
A boost in pension payments

The Government will provide an additional $1,689 a year to full rate single pensioners and $527 a year to full rate pensioner couples (combined). This brings the total value of pension payments for singles to two-thirds (66 per cent) of the couple combined package, in line with a key finding of the Harmer Pension Review.

Single pensioners
From 20 September 2009 under the new arrangements, full rate single pensioners will receive an additional $32.49 per week through:
- an extra $30.00 per week in the base pension
- an extra $2.49 per week in a new fortnightly Pension Supplement.

Pensioner couples
From 20 September 2009, full rate pensioner couples will receive an additional $10.14 per week in the new fortnightly Pension Supplement.

Boost to pensions

Phil is retired and relies on a full pension while living in his own home. While he volunteers and cares for his grandkids, he is no longer working and does not receive any other income.

From 20 September 2009, Phil will receive an additional $30 a week, increasing his base pension by $1,560 a year.

Phil will also benefit from the simplified pension system and will receive the new Pension Supplement which increases supplementary payments by $129.48 a year.

From 20 September 2009, Phil will receive both payments fortnightly; his total payments, including increases, being $336.68 per week.

As a result of the reforms, Phil will have greater security in his pension and will be able to plan and budget more effectively.
Pension payments will be simpler to understand and available on a more flexible basis, so that pensioners can plan and budget more effectively.

The Government will simplify the existing pension allowances by creating a new fortnightly Pension Supplement.

From 20 September 2009, the existing Goods and Services Tax Supplement, Pharmaceutical Allowance, Utilities Allowance, Telephone Allowance (at the higher internet rate), and increased assistance of $2.49 per week for singles and $10.14 per week for couples combined will be included in the new fortnightly Pension Supplement.

To assist pensioners to meet lumpy costs, from 1 July 2010, pensioners will:
- be able to receive around half of the Pension Supplement quarterly
- have greater access to advance pension payments through an increase in the maximum allowable advance and increase in the number of times they can access advances in a year.

From 1 July 2011, the new fortnightly Pension Supplement will be increased further to include the Carbon Pollution Reduction Scheme household assistance.

**A simple and flexible pension**

Existing ‘add-ons’ to the pension will be rolled into a single new fortnightly Pension Supplement.

Advance pension payments will be increased and made more flexible.
Keeping pace with pensioner costs

It is important that pension increases keep pace with the prices of goods that pensioners typically purchase.

A new index for pensioners

The Government will develop a new price index, to apply from 20 September 2009, designed specifically for households who rely on the pension.

The Government will use this new measure of price changes, the Pensioner and Beneficiary Living Cost Index, to index base pension rates where it is higher than the CPI. The CPI will still be used to index relevant eligibility thresholds.

A higher community living standards benchmark

The Government will continue to ensure that base pension rates keep up with community living standards by increasing the current benchmark.

Currently, the single rate of pension is benchmarked to 25 per cent of Male Total Average Weekly Earnings (MTAWE). That is, the pension is set at this level if CPI indexation happens to produce a lower pension rate.

Under the new arrangements, not only will the pension be increased by the higher of the CPI or the new Pensioner and Beneficiary Living Cost Index, but the effective benchmark for the single pension will also be increased from 25 per cent to 27.7 per cent of MTAWE.

This increase in the benchmark of more than 10 per cent will be enshrined in legislation.

The Government will ensure that the full rate of pension increases with changes in community living standards.

A new legislated pension benchmark will deliver an increase for singles to 27.7 per cent of Male Total Average Weekly Earnings — up from 25 per cent.
Demographic changes

Australia faces major demographic change over the coming decades.

- By 2047, some 7.2 million Australians will be aged over 65, representing 25 per cent of the expected population, almost double the current 13 per cent.
- Currently, there are around five people of working age to support every person aged 65 and over. This will more than halve to 2.4 people by 2047.
- Increasing longevity means that people are receiving the Age Pension for far longer periods than in the past.
- Demographic change means that the costs of a given pension increase today will almost double as a share of GDP by 2050.

Reforming the pension system

Building a sustainable pension system requires that these demographic changes be taken into account to ensure that the pension, while providing pensioners with an adequate standard of living, can be afforded by taxpayers into the future.

The Government has taken a series of tough decisions to ensure the pension system remains sustainable in the long term, including:

- progressively increasing the Age Pension qualifying age to 67 years from 2017
- ensuring that the pension increases are targeted to those who most need them
- supporting ongoing workforce participation by age pensioners.
Increasing the Age Pension age

With advances in medical technology and changes in lifestyle, people are living longer and spending more retirement years in good health.

Despite this, the Age Pension age has not been increased above 65 years since its inception in 1909.

When the Age Pension was introduced, a male retiring at age 65 would have expected to spend 11 years in retirement. At that time, around half of the male population reached retirement age.

Today over 85 per cent of the male population reaches retirement age and can expect to spend over 19 years in retirement.

To respond to the long-term cost of demographic change, and to reflect improvements in life expectancy, the Government will progressively increase the qualifying age for the Age Pension.

The Age Pension age will be increased to 67 years, at a rate of six months every two years, beginning in 2017. This change will eventually apply to all age pensioners.

This change is consistent with international trends for a number of OECD countries. The United States, Germany, Iceland, Norway and Denmark currently have, or are moving towards, retirement ages of 67. The United Kingdom is going further still and increasing the Age Pension age to 68.

The Service Pension qualifying age will remain at the current level of 60 for men. For women it is already progressively increasing to 60 by 1 January 2014.

The Age Pension age for men has not increased above 65 since the pension was introduced in 1909.

The proportion of the population reaching retirement age has nearly doubled; and life expectancy at retirement has also nearly doubled.

<table>
<thead>
<tr>
<th>Date</th>
<th>New Age Pension Age</th>
<th>Affects people born</th>
<th>Current age</th>
</tr>
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<tr>
<td>1 July 2017</td>
<td>65.5</td>
<td>1 Jul 1952 - 31 Dec 1953</td>
<td>55.5 to 57</td>
</tr>
<tr>
<td>1 July 2019</td>
<td>66</td>
<td>1 Jan 1954 - 30 Jun 1955</td>
<td>54 to 55.5</td>
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<tr>
<td>1 July 2021</td>
<td>66.5</td>
<td>1 Jul 1955 - 31 Dec 1956</td>
<td>52.5 to 54</td>
</tr>
<tr>
<td>1 July 2023</td>
<td>67</td>
<td>1 Jan 1957 - onwards</td>
<td>52.5 or younger</td>
</tr>
</tbody>
</table>
Changes to the income test rules will ensure that the largest pension increases are targeted to those who need them most.

The Harmer Pension Review found that it was appropriate to limit the flow on of the increase to pensioners with low to moderate reliance on the pension.

This will help make pension reform affordable.

**Better targeting**

**Ensuring pension increases go to those who need them most**

The Harmer Pension Review found that it was appropriate to limit the flow on of the increase to pensioners with low to moderate reliance on the pension.

To improve targeting of the pension, the pension income test will be changed. The rate at which the pension is withdrawn for each dollar of additional private income will be increased from 40 cents to 50 cents for income above the free area (currently $138 per fortnight for singles and $240 per fortnight for couples).

Pension arrangements are set so that the income test reduces pension eligibility as levels of private income increase. The changes to the income test will ensure that pension increases can be targeted to those most in need, whilst supporting ongoing workforce participation.

Around 70 per cent of all pensioners will be unaffected by the pension income test change and will move to the new system immediately. This includes around 93 per cent of all single pensioners.

**A smooth transition to a new system**

Most existing pensioners — including all full rate pensioners — will be better off immediately under the new arrangements and will move directly to the new system.

Existing part-rate pensioners will transition to the new arrangements at the point they provide a better outcome for them.

These pensioners will also receive an increase in their pension entitlements of $10.14 per week (single and couple combined).

They will continue to receive their existing entitlements, plus the $10.14 per week, all maintained in real terms, until the new system with an enhanced MTAWE benchmark provides them with a better outcome.
Supporting employment

Encouraging workforce participation with a Work Bonus

Part-time work is important to some pensioners, and also brings substantial benefit to the broader community. As demographic change sees an ageing of the Australian population, it will be important that older workers are not discouraged from maintaining this connection.

The Government is encouraging workforce participation by introducing a Work Bonus which treats earned income more generously.

Under the new arrangements, only half of the first $500 of fortnightly employment income will be included in the income test. This means that as a person’s employment income increases their pension will reduce at half the rate it otherwise would have. Pensioners can get a maximum benefit of $125 per fortnight under the Work Bonus.

The Government has decided to close the Pension Bonus Scheme to new entrants from 20 September 2009. The Harmer Pension Review found that the scheme is complex and not meeting its objective of encouraging workforce participation. Existing members of the scheme will continue to accrue entitlements under existing rules.

Work Bonus for pensioners

Elizabeth is a single pensioner who works part-time at her local library, has a fortnightly income of $150 from her superannuation fund and also receives a part-rate Age Pension.

From her job at the library, Elizabeth earns around $500 a fortnight.

As Elizabeth is on a part-rate Age Pension, additional income reduces the amount of pension she receives.

From 20 September 2009, Elizabeth will benefit from the Work Bonus under the new income test arrangements and only half of the income from her library job will be assessed under the pension income test.

This means that Elizabeth will be $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.
The Government recognises the vital role that carers play for the people they care for and the community more broadly. Carer Payment recipients will receive the pension increases announced in the pension reform package, including an additional $32.49 a week for singles on the full rate.

In addition, in recognition of the special role carers play and the costs they bear, the Government is providing them with more support. The Government will introduce a permanent Carer Supplement of $600 per annum for Carer Payment recipients and an additional $600 per annum for Carer Allowance recipients for each eligible person in their care. The supplement will replace the previous Budget one-off bonuses and will ensure ongoing and certain assistance for carers. The first payment will be made on or before 30 June 2009, with subsequent annual payments from 1 July 2010, at a cost to the Budget of $1.8 billion over five years.

This payment is a permanent increase in assistance paid to carers, and in addition to the existing Child Disability Assistance Payment of $1,000 a year for carers who receive Carer Allowance (child).

Tim will benefit from the pension reform package as his Carer Payment pension and supplement will increase by $32.49 a week. In addition, Tim will receive a $1,200 annual Carer Supplement — $600 per annum because he receives both the Carer Payment and the Carer Allowance. This Carer Supplement is a permanent payment and is in addition to the Child Disability Assistance Payment of $1,000 per annum that Tim receives to care for Sandra.

As a result of the reforms, Tim will now have greater ongoing financial security in his role as a carer for Sandra.
The Government recognises that Disability Support Pensioners have not always received the same level of support as other pensioners and are among the most vulnerable in society. The Government has moved to address this.

In March 2008, the Government extended the Utilities Allowance to recipients of the Disability Support Pension (DSP) for the first time, now valued at $518.80 per year.

Disability Support Pensioners also received one-off payments for the first time as part of the Economic Security Strategy announced in October 2008.

The pension reform package ensures that Disability Support Pensioners benefit from the pension increases, and the simpler and fairer system of pension payments.

At the same time, the Government will improve the assessment process for new DSP claimants to ensure the DSP eligibility rules appropriately recognise the capacity of people with disability to engage in the workforce.

The combination of the extension of the Utilities Allowance and pension increases means that single Disability Support Pensioners are around $2,208 per annum better off due to changes introduced by this Government.

Support for people with a disability

Alan has a severe disability and is unable to work. He receives the maximum rate of Disability Support Pension.

As part of the pension reforms, the Government will increase Alan's Disability Support Pension and Pension Supplement payment by $32.49 a week, an increase to his total pension of $1,689 per year.
Supporting self-funded retirees

The Government recognises that many senior Australians have saved over their lives to support themselves in retirement.

The Government is simplifying the payment of allowances by combining the existing Seniors Concession Allowance and Telephone Allowance into a new Seniors Supplement.

Single Commonwealth Seniors Health Card and Veteran’s Gold Card holders will receive an extra $129 per year to better reflect the costs for those who live alone. This brings the rate paid to singles to two-thirds of the rate paid to couples combined.

The Government has also extended the drawdown relief provided for account-based pensions in 2008-09. This will see the minimum payment amounts for account-based pensions reduced by 50 per cent for 2009-10. This will benefit holders of these products by reducing the need to sell investment assets at a loss to meet the minimum drawdown amount. The extension recognises the impact of the global downturn on account-based pensions.

Some self-funded retirees will also receive tax cuts on 1 July 2009 as part of tax changes announced in the 2008-09 Budget.

Assistance for self-funded retirees

Jan is 68 and recently retired. Jan does not qualify for the Age Pension because of the income she receives from her investments, but she is eligible for the Commonwealth Seniors Health Card.

Jan will receive the new Seniors Supplement of just over $790 a year for singles. As a result, Jan will have an extra $129 per year to help better balance her budget.

Jan will also benefit from changes to the minimum drawdown amounts for account-based pensions.
Supporting veterans

Assistance to veteran pensioners

Pensioners who receive the Veterans’ Service Pension and Income Support Supplement will benefit from the increases to pension payments. Under the new arrangements the Government will provide an additional:

- $32.49 a week for single pensioners on the full pension
- $10.14 a week for pensioner couples (combined) on a full pension.

This brings the single rate of pension up to two-thirds of the combined couple rate.

Other assistance for veterans

The Government recognises that not all veterans receive the Service Pension or Income Support Supplement. For these veterans, the Government will simplify the payment of allowances by incorporating the Pharmaceutical Allowance and Telephone Allowance into a new Veterans’ Health Care Supplement.

The Veterans’ Health Care Supplement will be paid fortnightly from 20 September 2009. There will be two rates of payment — $156 per year where only one of either the Pharmaceutical Allowance or Telephone Allowance is received; or $312 per year to replace both allowances.

The Service Pension qualifying age will remain at the current level (60 for men, and progressively increasing to 60 for women).
The Government has decided to reform superannuation concessions to ensure spending is better targeted and fiscally responsible in the short and long term. These measures will save around $4.2 billion over four years.

From 1 July 2009, the Government will reduce the annual cap on concessional superannuation contributions from $50,000 to $25,000, and the transitional cap (which applies until 30 June 2012 for those aged 50 years and over) from $100,000 to $50,000.

Less than 2 per cent of people who make concessional contributions will be affected by this measure (regardless of their age). These caps will improve equity by reducing the disproportionate benefits received by higher income earners who can afford to make larger concessional contributions.

The Government will also temporarily reduce the superannuation co-contribution matching rate from 150 per cent to 100 per cent for contributions made in 2009-10, 2010-11, and 2011-12 (a maximum co-contribution of $1,000 will apply), and to 125 per cent for contributions made in 2012-13 and 2013-14 (a maximum co-contribution of $1,250 will apply). The reduced matching rate will still provide a very generous incentive for those who are eligible.

**Budgetary savings from superannuation measures**

![Graph showing budgetary savings from superannuation measures](chart)
A consistent and fairer system

Residential aged care

As our population ages, it is vital that we promote a strong and vibrant 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 that of the $32.49 per week increase in the single base pension, $22.40 per week will flow to the residential aged care provider and $10.09 will flow to the pensioner.

This represents an ongoing increase of $195 million per year for this vital sector. This will be available to meet the rising health and care costs that they face.

Self-funded retirees in residential aged care

As the rate charged to self-funded retirees is linked to the rate paid by pensioners, an increase in the Age Pension of this size would normally mean that 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 that 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 protected part-rate pensioners who do not receive the full pension increase.

Pensioners in aged care will receive more money in their pockets each week.

Part of the pension increase will flow through to residential aged care providers via increased fees.

Self-funded retirees in aged care will have their existing fees protected.