Preparing financially for a longer and more secure life

The Government is helping Australians make the most of their retirement years by providing more choices to plan earlier, earn more, save more and live longer.

The Government's More Choices for a Longer Life Package delivers measures that encourage Australians to prepare their finances early, and supports them by improving flexibility for working, saving and spending.

Pension Work Bonus

Expanding the Pension Work Bonus (Work Bonus) will allow more age pensioners to earn more income from working without reducing their pension payments.

The Work Bonus will be increased to $300 per fortnight (up from $250 per fortnight) and for the first time it will also be extended to the self-employed.

- Fact Sheet 3.1 Pension Work Bonus.

An extra year to contribute to superannuation

The Government will provide more time for Australians aged 65 to 74 with a modest balance to boost their retirement savings, by introducing an exemption from the superannuation work test.

This exemption will apply where an individual's total superannuation balance is below $300,000 and will permit voluntary superannuation contributions in the first year that they do not meet the work test requirements.

- Fact Sheet 3.2 Superannuation Work Test exemption for retirees.

Pension Loans Scheme

The More Choices for a Longer Life Package expands the Pension Loans Scheme to give everyone of Age Pension age the option to boost their standard of living by drawing on equity in their own home. Full rate pensioners will be able to boost their income by up to $11,799 (singles) or $17,787 (couples) per year.

- Fact Sheet 3.3 Expansion of the Pension Loans Scheme.

Making the most of savings

The Government will support a higher standard of living for retirees and expand retirement income options to meet changing retirement needs through its retirement income framework.

To encourage the development of new innovative income stream products, the Government is clarifying how these products are assessed against the Age Pension means test.

The Government will also require superannuation fund trustees to develop a retirement plan for members and offer a wider variety of products. Superannuation funds will also be required to provide more information to help consumers compare and choose products.

- Fact Sheet 3.4 Retirement Income Framework.

Pension Work Bonus

The Government is supporting older Australians who choose to work more and improve their income by increasing the Pension Work Bonus to $300 a fortnight and extending eligibility to the self employed.

The Pension Work Bonus is an income test concession for age pensioners and equivalent Veterans' Affairs pensioners. Currently, the first $250 of employment income a fortnight is not counted in the Age Pension income test. This amount has not been increased since 2011, and does not apply to income earned from self-employment.

Helping you earn more

From 1 July 2019, the Pension Work Bonus (Work Bonus) will increase to $300 per fortnight, up from $250 per fortnight. This means that the first $300 of income from work each fortnight will not count towards the pension income test.

This is in addition to the income free area, which is currently $168 a fortnight for a single pensioner and $300 a fortnight (combined) for a pensioner couple. So a single person with no other income will be able to earn up to $468 a fortnight from work and get the maximum rate of Age Pension.

Pensioners will also continue to accrue unused amounts of the fortnightly Work Bonus, which can exempt future earnings from the pension income test. The maximum accrual amount will increase to $7,800.

For the first time the Government is also extending eligibility for the Work Bonus to earnings from self employment. That means a pensioner can earn $7,800 per year through self-employment without impacting their pension.

To ensure the Work Bonus only applies to actual engagement in gainful work, there will be a 'personal exertion' test. It is not intended that the Work Bonus would apply to income associated with returns on financial or real estate investments.

The Government's changes to the Work Bonus support workforce participation, improve standards of living for older Australians, and better reflect modern work arrangements.

The changes are expected to benefit more than 88,000 pensioners.

This measure is expected to have a cost to the Budget of $227.4 million over the forward estimates.

Rohan works one day a week, and receives full pension

Rohan is a single age pensioner working one day a week and earning $450 a fortnight. He has no other income and his assets are below the asset test free area. His pension is currently reduced because of his earnings. Under the changes, the first $300 of Rohan's earnings will not be assessed and only $150 will count for the pension income test. As this is less than the pension income test free area, his pension will increase by $16 per fortnight to the maximum rate.

Nisha is self-employed and will now be eligible for the Pension Work Bonus

Nisha is a single part rate age pensioner who runs a small business. She earns an average of $1,000 a fortnight. Her assets are below the pension asset test free area. As Nisha's income from self-employment is now eligible for the Work Bonus, the first $300 of her income will be excluded from the pension income test, and Nisha will receive a higher part-rate Age Pension. Her pension will increase by $150 per fortnight.

Budget 2018

FACT SHEET 3.2

More Choices for a Longer Life Package

Superannuation Work Test exemption for retirees

The Government will provide a one-year exemption from the work test for superannuation contributions to allow recent retirees to boost their superannuation balances.

Currently people aged 65-74 must work a minimum of 40 hours in any 30-day period in the financial year in order to keep making contributions to superannuation – this is known as the work test.

An extra year to contribute to Superannuation

From 1 July 2019, Australians aged 65 to 74 with a total superannuation balance below $300,000 will be able to make voluntary contributions for 12 months from the end of the financial year in which they last met the work test.

Total superannuation balances will be assessed for eligibility at the beginning of the financial year following the year that they last met the work test. Once eligible, there is no requirement for individuals to remain under the $300,000 balance cap for the duration of the 12 month period.

Existing annual concessional and non-concessional caps ($25,000 and $100,000 respectively) will continue to apply to contributions made under the work test exemption.

Individuals will also be able to access unused concessional cap space to contribute more than $25,000 under existing concessional cap carry forward rules during the 12 months.

As bring forward arrangements for non-concessional contributions are not available to those 65 and over, individuals will not be able to access bring forward non-concessional contributions under the work test exemption.

The work test exemption will give older Australians additional flexibility to contribute more into superannuation as they move into retirement.

This measure is estimated to have a cost to revenue of $10 million over the forward estimates.

Gus increases his super as he transitions to retirement

At the age of 68, Gus retires from full-time work on 1 June 2020. As he would not meet the work test in the 2020-21 financial year, Gus would currently be prevented from making any voluntary super contributions after 30 June 2020.

As his total superannuation balance is $150,000 at the end of the 2019-20 financial year, Gus is eligible to make contributions under the work test exemption from 1 July 2020 to 30 June 2021.

As Gus had not reached his concessional contribution cap over the past 2 years, having contributed only $18,000 in 2018-19 and $12,000 in 2019-20, under the existing carry forward arrangements and new work test exemption Gus can contribute up to $45,000 at concessional tax rates in the 2020-21 financial year.

As a result of the work test exemption, Gus is also able to contribute up to $100,000 in non concessional contributions in 2020-21.

Expansion of the Pension Loans Scheme

The Government will extend eligibility for the Pension Loans Scheme to all Australians of Age Pension age, allowing them to improve their income in retirement.

Some older Australians, particularly maximum rate pensioners who own their own home, may have most of their wealth tied up in the family home.

Currently, the Government offers a reverse mortgage through the Pension Loans Scheme (PLS) to part and some nil rate pensioners to allow them to 'top up' their Age Pension to the maximum rate. This provides an option for Australians to supplement their income. However, maximum rate age pensioners and self funded retirees are currently excluded from the PLS.

Extending Eligibility to the Pension Loans Scheme

From 1 July 2019, the Government will:

- expand eligibility of the Pension Loans Scheme (PLS) to all Australians of Age Pension age including maximum rate age pensioners; and
- increase the maximum allowable combined Age Pension and PLS income stream to 150 per cent of the Age Pension rate.

Full rate pensioners will be able to increase their income by up to $11,799 (singles) or $17,787 (couples) per year by unlocking the equity in their home. PLS participants have the flexibility to start or stop receiving PLS payments as their personal circumstances change, and generally repay the loan once their home is sold.

Existing age-based loan to value ratio limits will continue to apply. This means that PLS holders will not be able to owe the Government more than what their home is worth. The current PLS interest rate of 5.25 per cent per annum will apply to existing and new loans. This has been the rate since 1997.

The measure will better target the PLS to those who would benefit the most and give older Australians more choice to draw on the equity in their homes to support their standard of living in retirement.

Currently, there are around 1.8 million age pensioners who own their own home, including 1.1 million maximum rate age pensioners and 700,000 part rate age pensioners.

This measure is expected to cost $11 million over the forward estimates.

Full rate single pensioner with $400,000 property

Janet is a 70 year old single maximum rate age pensioner with a house valued at $400,000. Her Age Pension income is currently $908 per fortnight ($23,598 per year). Under the expanded PLS, Janet is now able to access some of the value in her home.

Janet chooses to receive an additional income stream of around $6,000 in the first year. Her income increases to $1,135 per fortnight ($29,497 per year), 125 per cent of the maximum rate of the Age Pension. The value of the income stream increases over time in line with the indexation of the pension.

Janet continues to draw down a PLS income stream for 20 years at an interest rate of 5.25 per cent. Janet passes away at age 90. Her family sell her house for $750,000. The PLS loan owed to the Government has increased to around $300,000, which is paid from the house sale proceeds. Around $450,000 remains in her estate. Over the 20 years, Janet receives around $170,000 in additional income to support her standard of living in retirement.

Full rate pensioner couple with $850,000 property

Bob and Sue are a 70 year old maximum rate pensioner couple, with a house valued at $850,000. Their combined Age Pension income is currently $1,368.20 per fortnight ($35,573 per year).

Under the expanded PLS, Bob and Sue are now able to access some of the value in their home. They choose to receive $2,052 per fortnight ($53,360 per year), the full amount of 150 per cent of the maximum rate of the Age Pension. The value of the income stream increases over time in line with pension indexation.

Over the next 20 years, Bob and Sue receive a PLS income stream at an interest rate of 5.25 per cent. After 20 years, Bob and Sue sell the house for $1.6 million. While the balance of the PLS loan owed to the Government has grown to around $900,000, Bob and Sue pay out this balance from the sale proceeds and retain $700,000.

Over the 20 years, Bob and Sue receive around $500,000 in additional income to support their standard of living in retirement.

Questions and answers

Q. How does a PLS reverse mortgage work?

Under the PLS, you can choose to receive regular fortnightly payments to supplement your income. These payments are drawn down from the equity you hold in your home and accumulate as a debt to the Government which includes interest. Repayments of the loan generally occur from the sale proceeds once the house is sold, however you can choose to repay at any time.

Q. What is the maximum I can borrow?

While the overall maximum you can receive is 150 per cent of the maximum rate of the Age Pension, your actual limit will depend on your age, how long you intend to receive payments, whether you are single or partnered, the value of your home and how much Age Pension you receive. This protects you to ensure you don’t have to pay back more than your home is worth.

Q. Would my PLS be taxed or means tested?

Income streams from the PLS are non-taxable and generally not means tested. The only exception is in the unlikely event that you save PLS payments, rather than spending them, the saved amount could then be means tested.

Budget 2018

FACT SHEET 3.4

More Choices for a Longer Life Package

Retirement Income Framework

Australians will be able to enjoy higher standards of living in retirement under the Government's new framework for retirement income. The retirement phase of the superannuation system is currently under-developed. There is limited availability and take-up of products that manage the risks people face in retirement, in particular the risk of outliving their savings. As a result, most people invest their superannuation savings in an account based pension and withdraw only legislated minimum amounts, without being aware of all the choices.

Boosting retirement income choices

The Government is developing a retirement income framework to increase flexibility and choice for retirees and help boost living standards. The framework will ensure retirees have more retirement income products to choose from and the information they need to make a choice. New Age Pension means testing rules for pooled lifetime income streams will also support innovation in retirement income products.

These steps build on changes made in the 2016-17 Budget to extend the tax exemption on superannuation earnings in the retirement phase to a wider variety of retirement income products.

Retirement income covenant

Currently there are no obligations on superannuation fund trustees to consider the retirement income needs of their members.

The Government will introduce a retirement income covenant in the Superannuation Industry (Supervision) Act 1993, requiring trustees to develop a strategy that would help members achieve their retirement income objectives. This will focus the industry on providing a higher standard of living for retirees.

The covenant will require trustees to offer Comprehensive Income Products for Retirement (CIPRs): products that provide individuals income for life, no matter how long they live.

The Government is releasing a position paper for consultation shortly, outlining its proposed approach to the covenant.

A new approach to product disclosure

The Government will also formulate a new approach to retirement income product disclosure rules that will require providers to report simplified, standardised information on retirement income products.

Means testing for lifetime products

From 1 July 2019, new Age Pension means testing rules will be introduced for pooled lifetime income streams. The rules will assess a fixed 60 per cent of all pooled lifetime product payments as income, and 60 per cent of the purchase price of the product as assets until 84, or a minimum of 5 years, and then 30 per cent for the rest of the person's life.

These new rules will provide industry with the confidence and stability to develop innovative products that can help retirees manage the risk of outliving their income, while ensuring a fair and consistent means test treatment of all retirement income products. These changes also pave the way for the development of CIPRs.

Retirees will have more choice and flexibility in retirement income products to meet a wider variety of needs and to help boost their living standards.

The means testing for lifetime products measure is estimated to have a cost of $20.2 million over the forward estimates. The retirement income covenant and product disclosure framework measures have no impact on expenditure.

Making Ying's super work harder in retirement

Ying is 65 and approaching retirement. Ying has $350,000 in her superannuation fund, BestSuper.

Status quo

Under the current rules, the trustee of BestSuper is most likely to recommend that Ying put her savings into an account-based pension. This is an investment account, which Ying can draw down throughout retirement. Ying doesn't know how long she will live and is worried she'll have to rely on the Age Pension if she runs out of money, so she only withdraws the minimum amount from her account each year, forgoing certain expenditure for fear of running out of money.

With planned reforms

Under the retirement income covenant, the trustee of BestSuper will be required to formulate a retirement income strategy for their members and develop a product that will provide income for life, no matter how long their members live.

Taking into account the new means testing rules, BestSuper creates a new product that would allow Ying to allocate 75 per cent of her savings (that is, $262,500) into an account-based pension, and place the remaining 25 per cent into a deferred lifetime annuity. The combination of these products will provide Ying with higher income compared to drawing down the minimum amount and also give her confidence that she won't run out of money. By keeping 75 per cent of her funds in a flexible account, Ying is free to draw on her capital to pay for expenses like a new car, holiday or health care.

Ying receives information from BestSuper about the products they offer that enables her to easily compare them and choose the one that suits her situation.

Questions and answers

Q. Are these reforms starting now?

The new means testing rules will take effect from 1 July 2019.

The Government is releasing a position paper on the retirement income covenant for public consultation shortly. Once the covenant is legislated and the regulations finalised, the Government will ensure the industry has sufficient time to adjust before the legislation commences.

The Government will consult on new disclosure requirements prior to implementation.

Q. What will the retirement income covenant mean for industry?

Superannuation funds will be required to develop a retirement income strategy to assist members to meet their retirement income objectives

The retirement income covenant will operate alongside existing covenants in the SIS Act, such as investment and insurance covenants. Offering a CIPR would be a core part of how trustees implement the retirement income strategy they have developed for their members.

Q. Will people be forced to take up a CIPR at retirement?

No. People will not be required to take up a CIPR upon reaching retirement. The introduction of CIPRs will simply increase the choice of retirement products available and improve access to retirement products that efficiently manage longevity risk to meet a wider variety of retiree needs.

Q. Will the new Age Pension rules affect people with existing pooled lifetime retirement income products?

No. Pooled lifetime income streams purchased before 1 July 2019 will be grandfathered. This is fair to people who bought the products based on the current rules and reduces business risks for product providers.