



Pension Reform

Service Pension Changes Effective 20 September 2009

Overview

On 20 September 2009, the Australian pension system will begin the most significant and widespread reform in more than 20 years.

This Factsheet is a summary of the changes to Service Pensions effective from 20 September 2009 only.

For general information about Service Pension refer to *Factsheet IS01 Service Pension Overview*.

Will anyone be worse off after 20 September 2009?

No. There is a minimum pension increase of \$20.20 a fortnight for pensioner couples and single pensioners.

Why has the Government decided to change the pension system?

The Government's pension reform package is addressing the following Harmer Pension Review findings:

- The rate of single service pension and age pension as a proportion of the combined couples rate is lagging behind other developed countries and does not adequately recognise the costs for those wholly reliant on the pension to support themselves
- The current system of pensions and allowances could be simplified by integrating them into either a new pension supplement or the base pension
- Pension payments should be tied to changes in the actual cost of living faced by pensioners
- There is scope to target pension increases more towards those who have little or no private means.

Boost to pension rate

From 20 September 2009 the full rate single service pension will be increased by \$65.00 per fortnight on top of normal indexation.

From the same date the full rate pensioner couples will receive an additional \$20.20 per fortnight on top of normal indexation.

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Streamlined allowances

The Government will simplify the existing pension allowances by creating a new fortnightly Pension Supplement. The Supplement incorporates the value of these four existing supplementary allowances:

- Goods and Service Tax supplement
- Utilities Allowance
- Telephone Allowance at the higher internet rate
- Pharmaceutical Allowance

and a one-off increase will be applied to the payment

Note: The portion of the Pension Supplement representing the telephone allowance and utilities allowance is not payable to pensioners who live permanently outside Australia, or who are absent from Australia for more than 13 weeks.

Keeping pace with pensioner costs

It is important that pension increases keep pace with the rise in costs that pensioners experience.

The Government will develop a new price index, to apply from 20 September 2009, designed specifically for households that rely on the pension. This new measure of price changes, the Pensioner and Beneficiary Living Cost Index (PBLCI), will be used to increase pension rates when it is higher than CPI. The CPI will still be used to index relevant eligibility thresholds.

Change to income test

To ensure a sustainable pension system into the future, the pension income test will be changed.

From 20 September 2009, the rate at which pension is withdrawn for each one dollar of income over the free areas (known as the taper rate) will be increased from 40 cents to 50 cents per fortnight (from 20 cents to 25 cents each for couples). The additional income test threshold (free area) for dependent children will also be removed and no longer form part of the calculation of a person's income free area.

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Transitional arrangements

A range of saving and transitional provisions will be in place to ensure no existing pensioner will be worse off.

The entitlements of existing pensioners who would otherwise be affected by the income test changes and whose pension would be reduced, will be maintained assuming no change in circumstances. The transition rules will ensure that they stay on the 40 cents taper until such time as the new arrangements provide a higher rate of pension.

Pensioners whose rate of pension is determined by the transitional arrangements will receive an increase in their maximum payment rate of \$20.20 per fortnight for singles (or \$20.20 combined for couples).

Around 70% of pensioners will move to the new rules immediately with only 30% needing the protection of the transition rules.

Workforce participation

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

From 20 September 2009, under the Work Bonus only half the first \$500 of earned income per fortnight will be counted in the income test for those over pension age and not protected by the transition rules. The \$500 amount will be increased by CPI each 1 July.

Example: A single person over pension age whose only income is earnings of \$700 a fortnight, will have \$450 assessed as income.

\$700 less \$500	=	\$200
\$500 divided by 2	=	\$250
\$200 plus \$250	=	\$450

The current Pension Bonus Scheme will close to new entrants from 20 September 2009. The Scheme will continue to be available to existing members who accrue entitlements under existing rules.

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Aged Care

The Government has announced that resident contribution in aged care will rise to enable the appropriate and equitable flow of the pension increase to both the care recipients and approved providers.

Resident contribution commonly known as the basic daily fee is currently 85 per cent of the basic single rate of pension. This will change to 84 per cent of the new pension rate from 20 September 2009 and a portion of the pension rise will flow to the aged care providers.

Self funded retirees, or part pensioners for whom pension increase is less than the expected rise in the resident contribution amount will be “protected” from paying higher aged care fees and will remain on their existing fee rate until they leave care. New residents (entering care on or after 20 September 2009) who do not benefit from the pension changes will initially pay the same rate as ‘protected’ residents and the higher rate will be phased-in over time.

Public Housing

It is expected that Public Housing tenants will receive the full benefit of the pension increase.

State and Territory Housing authorities are reviewing rent arrangements so that the boost to the pension rate will not result in a rent increase. Regular consumer price index adjustments will continue to be included in rent adjustments.

What do I have to do?

Nothing. DVA will calculate any required change for eligible pensioners.

Will my pension rate go down because of the change?

No, nobody will have a pension reduction because of the new rules. Your pension rate could only go down in September if you had an unrelated change of circumstances at the same time.

Will I get a letter to tell me what my new rate is?

Yes. DVA will write to pensioners to tell them what their rate of payment will be.

Oral advice

While we make every effort to ensure that you are given accurate information, it is important that you seek written confirmation of oral information or advice before making any major decisions based on that information.

We continually strive to improve the level of service you receive and make this request as an added safeguard for you.

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Other Factsheets

Other Factsheets related to this topic include:

- *IS01 Service Pension Overview*
- *IS30 Pension Rates, Limits and Allowances Summary*
- *IS14 Income Support Allowances*
- *IS16 Utilities Allowance*
- *IS07 Pension Bonus scheme*

Prior to 20 September 2009, the above Factsheets describe current information only.

More information

All DVA Factsheets are available from DVA offices, and on the DVA website at www.dva.gov.au.

You can phone DVA for the cost* of a local call on 133 254 or free call 1800 555 254 if you are outside a major city.

Note: *Use a normal landline phone if you can. Mobile phone calls may cost you more. Local call rates vary depending on your phone service provider

You can send an email to DVA at: GeneralEnquiries@dva.gov.au.

You can get more help from any DVA office.