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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

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

EXPLANATORY MEMORANDUM

**(Circulated by the authority of the
Minister for Families, Housing, Community Services and
Indigenous Affairs, the Hon Jenny Macklin MP)**

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

OUTLINE

This bill gives effect to a number of measures announced in the 2009 Budget, including key elements of the Government's Secure and Sustainable Pension Reform package.

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

Increased pension rates on 20 September 2009

This measure increases the single maximum basic rates of certain social security pensions by \$1,560.00 per annum, or \$30 per week, on 20 September 2009.

Indexation using the Pensioner and Beneficiary Living Cost Index

This measure allows for the indexation of the maximum basic rates of certain social security pensions to a new index, the Pensioner and Beneficiary Living Cost Index (PBLCI). This new index will be used to adjust maximum basic pension rates where movement in the PBLCI is greater than movement in the CPI for the relevant indexation period.

Indexation using combined couple benchmark

From 20 March 2010, this measure provides for a new 'combined couple benchmark', for pension rates, which will be 41.76 per cent of the annualised Male Total Average Weekly Earnings figure. The single pension will be benchmarked at 66.33 per cent of the combined couple benchmark, which is 27.7 per cent of the annualised Male Total Average Weekly Earnings figure. This will apply to certain social security pensions.

Pension supplements

Further amendments aim to simplify the payments made to pensioners living in Australia by consolidating a number of smaller payments and allowances into one pension supplement.

The amendments will also provide for an increase to pension payments via the new pension supplement of \$10.14 per week for couples combined and \$2.49 per week for singles.

Flow-through of pension supplement to CPRS legislation

Due to timing discrepancies between the introduction of the Carbon Pollution Reduction Scheme (CPRS) legislation and this bill, increases to pensions to compensate recipients of those payments for anticipated increases in the cost of living as a result of the introduction of the CPRS could not be precisely drafted.

Accordingly, the amendments in this bill now provide for the necessary increases and future adjustment of indexation for pensions that could not be included in the Carbon Pollution Reduction Scheme (Household Assistance) Bill 2009.

Income tests

The amendments will increase the income test taper rate from 40 cents to 50 cents per dollar of income over the ordinary income free area and remove the additional income test free area for dependent children from the calculation of the amount of a person's ordinary income free area. Transitional arrangements will apply for existing pensioners affected by the new income test changes to ensure current payment rates are maintained in real terms, and that those pensioners also benefit from a pension increase.

Work bonus

This measure introduces a new Work Bonus into the social security law, which allows for a certain amount of employment income that is earned, derived or received in an instalment period by a pensioner who is of age pension age to be disregarded for the purposes of the income test. The Work Bonus will enable pensioners over age pension age to keep more of the money they earn through work. This is a mechanism to support those pensioners of age pension age who wish to undertake some paid work to supplement their pension. It recognises that continuing employment offers both financial and non-financial benefits for individual pensioners, and recognises the contribution that their participation in the workforce can make to the community.

Employment income attribution for persons of pension age

This measure provides for the assessment of employment income for people in receipt of social security pensions and who are of age pension age on the same basis as people who are under age pension age. It will allow for assessment of employment income for an instalment period of a person to enable the operation of the Work Bonus.

Pension bonus scheme

The pension bonus scheme, which provides a tax-free lump sum payment to older Australians who defer claiming age pension, service pension or income support supplement and choose to remain in the workforce, will be closed to new entrants from 20 September 2009. The scheme will, however, continue to be available to existing members.

Transitional arrangements

This measure provides for a range of savings and transitional provisions to allow pensioners, who will be affected by changes to the social security law made by this bill on the date of commencement, to transition smoothly to the new arrangements.

Firstly, this measure provides for how a pension bonus will be calculated, after 20 September 2009, for a person whose age pension start day predates 20 September 2009. Secondly, it addresses how the new income test taper rate will affect disability support pensioners who are under 21, have no dependent children and who are in receipt of disability support pension immediately before 20 September 2009. Thirdly, this measure ensures that the current entitlements of existing pensioners who would otherwise be affected by the income test changes, and whose pension would be reduced, will be maintained in real terms.

Further, this measure provides a rule for couples, where at least one member is subject to transitional arrangements, that specifies how the ordinary income test will apply to a person to determine the rate payable to their partner.

Pension age

The qualifying age for age pension will increase for both men and women from 65 to 67 years by six months every two years commencing on 1 July 2017.

Advance payments

Existing arrangements will be improved to enable social security recipients to have greater access to advances of certain social security pensions.

Commonwealth seniors health card

The bill will provide for adjusted taxable income for the Commonwealth seniors health card to include income salary sacrificed to superannuation. 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. The change will apply to the Commonwealth seniors health card issued under either the *Social Security Act 1991* or the *Veterans' Entitlements Act 1986*.

Indexation under the family assistance law

Adjustment of certain FTB child rates

Amendments are made to the indexation arrangements for the FTB under 13 child rate and the FTB 13-15 child rate so that these rates are indexed on 1 July 2009 and each subsequent 1 July in accordance with movements in the Consumer Price Index only. Current benchmarks for these rates to the combined pensioner couple rate (which is linked to Male Total Average Weekly Earnings) are removed from 30 June 2009, ahead of indexation on 1 July 2009.

Indexation of maternity immunisation allowance

The indexation arrangements for maternity immunisation allowance (MIA) are amended so that MIA is indexed once every year, on 1 July. MIA is currently indexed on 20 March and 20 September each year. Under the new arrangements, MIA will not be indexed on 20 September 2009 and 20 March 2010 and will next be indexed on 1 July 2010 and each 1 July thereafter.

Portability of payments

The portability arrangements are extended so that certain social security recipients whose overseas absence is for the purpose of undertaking overseas study as a part of a full-time Australian course are able to be paid for the duration of the overseas study as long as the study can be credited towards their Australian course.

Excluded income

Amounts received under the Western Australian Cost of Living Rebate Scheme and the value of the benefits received under the Western Australian Country Age Pension Fuel Card will be excluded from the social security and veterans' affairs income test starting on 1 July 2009 and ending on 30 June 2012.

Amendments relating to aged care

As a result of the increase in the rate of age pension on 20 September 2009, the contribution to the cost of living for people in residential aged care will also increase to enable the appropriate and equitable flow of the pension increase to both the care recipient and the approved residential provider.

Operational area

A new 'operational area' is to be added to Schedule 2 to the *Veterans' Entitlements Act 1986*. Australian Defence Force members allotted for duty in an operational area have access to pensions, treatment and other benefits available under the *Veterans' Entitlements Act*. Where a veteran has operational service, the standard of satisfaction for determining eligibility for disability pension is the more generous 'reasonable hypothesis' standard of proof, in accordance with subsections 120(1) and (3) and section 120A of the *Veterans' Entitlements Act*.

Financial impact statement

NB * Some financial impacts marked below include impacts for the Department of Veterans' Affairs for amendments to be included in a later bill.

Total increase to pension payment:

Increased pension rates on 20 September 2009

Indexation using the Pensioner and Beneficiary Living Cost Index

Indexation using combined couple benchmark

Pension supplements

Advance payments

* Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
\$2,732.80 m	\$3,634.40 m	\$3,813.10 m	\$4,026.00 m

Income tests:

Taper rate

Income free area

Work bonus

Employment income attribution for persons of pension age

Transitional arrangements

* Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
- \$134.0 m	- \$284.5 m	- \$363.9 m	- \$451.3 m

Pension bonus scheme

* Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
\$7.1 m	\$5.1 m	- \$15.6 m	- \$54.5 m

Pension age

* Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
\$0.8 m	\$0.1 m	\$0.4 m	\$0.1 m

Commonwealth seniors health card

Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
- \$9.6 m	- \$11.4 m	- \$13.3 m	- \$14.2 m

Indexation under the family assistance law

Adjustment of certain FTB child rates

Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
- \$43.1 m	- \$189.5 m	- \$292.0 m	- \$498.7 m

Indexation of maternity immunisation allowance

Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
- \$0.3 m	- \$0.5 m	- \$0.9 m	- \$0.9 m

Portability of payments

Total resourcing – Department of Families, Housing, Community Services and Indigenous Affairs, and Department of Education, Employment and Workplace Relations only #

2009-10	2010-11	2011-12	2012-13
negligible	negligible	negligible	negligible

Centrelink costs to be determined

Excluded income

Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
\$4.5 m	\$4.8 m	\$5.0 m	nil

Amendments relating to aged care

Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
\$4.7 m	\$8.5 m	\$8.5 m	\$3.4 m

Operational area

Total resourcing – all portfolios

2009-10	2010-11	2011-12	2012-13
\$0.3 m	\$0.1 m	\$0.1 m	\$0.1 m

NB These figures are indicative and are yet to be agreed with the Department of Finance and Deregulation

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

NOTES ON CLAUSES

Clause 1 sets out how the Act is to be cited, that is, as the *Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Act 2009*.

Clause 2 provides a table that sets out the commencement dates of the various sections in, and Schedules to, the Act.

Clause 3 provides that each Act that is specified in a Schedule is amended or repealed as set out in that Schedule and any other item in a Schedule has effect according to its terms.

This explanatory memorandum uses the following abbreviations:

- 'Aged Care Act' means the *Aged Care Act 1997*;
- 'CPI' means Consumer Price Index;
- 'CSHC' means Commonwealth Seniors Health Card;
- 'DFISA' means Defence Force Income Support Allowance paid under Part VIIAB of the Veterans' Entitlements Act;
- 'Family Assistance Act' means the *A New Tax System (Family Assistance) Act 1999*;
- 'FTB' means family tax benefit;
- 'Income Tax Assessment Act' means the *Income Tax Assessment Act 1997*;
- 'MIA' means maternity immunisation allowance;
- 'MTAWE' means Male Total Average Weekly Earnings;
- 'Social Security Act' means the *Social Security Act 1991*;
- 'Social Security Administration Act' means the *Social Security (Administration) Act 1999*; and
- 'Veterans' Entitlements Act' means the *Veterans' Entitlements Act 1986*.

Further, where this explanatory memorandum refers to 'certain pensions' in relation to the application of measures in the bill, that phrase means all social security pensions except for pension PP (single) and disability support pension paid to people under age 21 without children.

Schedule 1 – Increased pension rates on 20 September 2009

Summary

This Schedule increases the single maximum basic rates of certain social security pensions by \$1,560.00 per annum, or \$30 per week, on 20 September 2009. Singles will also benefit from a further increase of \$2.49 per week in the new pension supplement as provided for in Schedule 4 to this bill.

Background

The increase in the single pension rate responds to a number of key findings of the Pension Review (undertaken by Dr Jeff Harmer throughout 2008-09), including:

- single maximum rate pensioners should be a priority for reform. The existing single maximum rate of pension does not adequately recognise the costs faced by those wholly reliant on the pension to support themselves; and
- the relativity of the single maximum rate of pension to the couple combined maximum rate of pension is too low and should be in the range of 64 to 67 per cent.

Once the increases in the single maximum basic rate and the new pension supplement are applied, single maximum rate pensioners will receive 66.33 per cent of the maximum rate of pension for a couple combined, as provided for in Schedule 3 to this bill.

The amendments made by this Schedule commence on 20 September 2009.

Explanation of the changes

Amendments to the Social Security Act

Item 1 provides for an increase in the maximum basic rate of some single pensions of \$1,560.00. The pensions affected by this increase will be: age pension; disability support pension (payable to people over 21 and people under 21 with a dependent child or children); wife pension; carer payment; bereavement allowance; widow B pension; and special needs pension. All of these pensions are calculated in accordance with the provisions in new paragraphs 1206GE(2)(a) to (c). The changes do not apply to pension PP (single), nor to disability support pension paid to people under age 21 without children.

Divisions 1 and 2 of Part 2 of this Schedule make a number of technical amendments to cease Pension Rate Calculators D and E applying to calculate the rate of disability support pension payable to people who are under 21 and have a dependent child or children. As a result of these amendments, the rate of disability support pension for people under 21 who have a dependent child or children will be calculated under Pension Rate Calculators A and B. Through these amendments, this group of disability support pension recipients will receive the same rate of disability support pension as 'adult' disability support pension recipients who are over 21. These amendments will also mean that single people of this group will benefit from the single maximum basic rate increase provided by new section 1206GE.

Items 2 and 3 make amendments to section 117, which is the provision that describes how to work out a person's rate of disability support pension, to specify that the rate for disability support pension recipients who are under 21 and have dependent children is calculated under Pension Rate Calculators A and B.

Items 4 to 8 make amendments to Pension Rate Calculators A and B to ensure that these rate calculators apply to disability support pension recipients who are under 21 and have dependent children.

Items 9 to 24 make amendments to Pension Rate Calculators D and E to ensure that they no longer apply to recipients of disability support pension who are under 21 and have dependent children.

Items 25 to 50 are consequential amendments made as a result of the cessation of the application of Pension Rate Calculators D and E to recipients of disability support pension who are under 21 and have a dependent child or children.

Item 51 is a consequential amendment to subsection 17(8), which is required because of the change in the rate of the maximum basic rate payable to a single pensioner. Subsection 1170(4) of the Social Security Act contains a rule which specifies how to determine the number of weeks for which a person is precluded from receiving a compensation affected payment where he or she has also received a lump sum compensation payment. That rule operates by dividing the 'compensation part' of a person's lump sum (worked out by applying subsection 17(3) of the Act) by the 'income cut-out amount' as defined in subsection 17(1) of the Social Security Act. The resulting figure is the number of whole weeks, rounded down, for which the person is 'precluded' from receiving a compensation affected payment.

For these purposes, the 'income cut-out amount' is worked out by reference to the formula in subsection 17(8). The purpose of this formula is to produce a figure which is effectively the amount of a single person's income that is required to reduce a social security single pension to nil by the ordinary income test. Because of the proposed changes to the income test taper from 0.4 to 0.5 (or from 40 cents in the dollar to 50 cents), as provided for in Part 1 of Schedule 4 to this bill, it is necessary to make changes to the formula to replace the number '2.5' at the beginning of the formula above to '2'.

Further, 'maximum basic rate' is redefined to mean the amount specified in column 3 of item 1 of the table in point 1064-B1. A new term, 'Point 1064-BA3 amount' is included to refer to the pension supplement for a person who is in Australia and for whom no election under section 1061VA is in force. Pharmaceutical allowance is no longer a factor in the formula because the pension supplement subsumes that allowance, as a result of amendments in Schedule 4 to this bill.

Item 52 repeals section 93H of the Social Security Act and replaces it with a new section. New **section 93H** is a consequential amendment required because of the changes to the single maximum basic rate of pension in this Schedule and the change to the pension supplement in Schedule 4.

Subsection 93H(1) is an application provision, which provides that section 93H, as amended, sets a person's annual pension rate if the start day for their age pension is on or after 20 September 2009. This means that, if a person's age pension start day is before 20 September 2009 (because, for example, they claim age pension before that day or because their age pension start day in relation to a claim after that day is backdated in accordance with, for instance, section 13 of the Social Security Administration Act), their pension bonus is to be calculated in accordance with section 93H as it existed prior to these amendments.

Subsections 93H(2) and (3) provide that a person's annual pension rate is the rate that would be the person's provisional annual payment rate (as defined in the relevant method statement at the beginning of Pension Rate Calculators A and B), worked out as at the start day for the age pension, as if the person's maximum payment rate under step 4 of the method statement were the total of: (a) the person's maximum basic rate (applicable from 20 September 2009); and (b) the amount worked under the table in subsection (4).

The table in subsection (4) sets out amounts that are equivalent to the pension supplement amounts payable to either a single person or a member of a couple as at 20 March 2009. This table effectively retains this amount, as indexed to the CPI, for the purposes of calculating a person's pension bonus. This means that the pension supplement payable to people from 20 September 2009 in accordance with the amendments by Schedule 4 to this bill will not be a factor in calculating a person's pension bonus after 20 September 2009.

Items 53 and 54 insert new items into the indexation tables in sections 1190 and 1191 of the Social Security Act. These items are to index the amounts in the table in subsection 93H(4) against the CPI in accordance with sections 1192 to 1194 on 20 September 2009 and on the indexation days of 20 March and 20 September of following years.

Part 4 of this Schedule provides for the application of the amendments made by the Schedule. **Item 55** clarifies that the amendments apply for the purpose of working out the rates of social security payments (including a pension bonus) for days on or after 20 September 2009, and not before.

Schedule 2 – Indexation using the Pensioner and Beneficiary Living Cost Index

Summary

This Schedule allows for the indexation of the maximum basic rates of certain social security pensions to a new index, the Pensioner and Beneficiary Living Cost Index (PBLCI). This new index will be used to adjust maximum basic pension rates where movement in the PBLCI is greater than movement in the CPI for the relevant indexation period.

Background

Currently, the maximum basic rates of all social security pensions are increased in line with movements in the CPI on 20 March and 20 September of each year to produce an 'indexed amount'. If, for singles, the indexed amount is lower than 25 per cent of MTAW, the indexed amount is increased to at least 25 per cent of MTAW.

The Australian Statistician is developing a new index, the PBLCI, to measure specifically increases in the cost of living experienced by pensioner and beneficiary households. To ensure that pension rates keep up with increases in the cost of living experienced by pensioners, this index is being introduced into pension rate calculations in social security law so that movements in the CPI can be compared to movements in the PBLCI. Maximum basic rates of pension will be indexed in line with the higher of these two indexes before benchmarking to MTAW.

The amendments made by this Schedule commence on the day on which they receive the Royal Assent. This is intended to ensure that provisions relevant to PBLCI indexation are in place by the indexation day of 20 September 2009.

Explanation of the changes

Amendments to the Social Security Act

Items 1, 2 and 3 add notes to the Maximum Basic Rate Modules in Pension Rate Calculators A, B and C to indicate that sections 1196 to 1198 can affect the adjusted maximum basic rates.

Item 4 adds a new paragraph (aa) into section 1189. The new paragraph means that Part 3.16 now provides for the indexation of the maximum basic rates for certain social security pensions using the PBLCI.

Item 5 makes an amendment to subsection 1192(2), the purpose of which is to indicate that the method statement in that subsection is subject to new Division 3 of Part 3.16 of the Social Security Act. In accordance with subsection 1196(2), the rounded PBLCI amount is compared to the rounded CPI amount.

Item 6 makes an amendment to the method statement at step 4 to ensure that the indexed amount can be one that is replaced in accordance with Division 3 of Part 3.16.

Item 7 inserts new Division 3 of Part 3.16 into the Social Security Act, named 'Social security pension indexation using Pensioner and Beneficiary Living Cost Index'.

Subsection 1196(1) of new Division 3 provides for the application of section 1196. The amount referred to in column 2 of item 1 of the table in section 1191 is 'pension MBR'. This abbreviation is defined in item 1 of the table in section 1190 to refer to all the maximum basic rates of social security pensions. To ensure that PBLCI does not apply to pension PP (single), it is necessary to exclude pension PP (single) in subsection 1196(1). Importantly, from the indexation day of 20 March 2010, 'pension MBR' will only cover partnered rates of social security pensions and pension PP (single) (see Schedule 3 to the bill). This recognises that pension PP (single) is indexed differently to other single rates of social security pensions.

Subsection 1196(2) provides for the key function of section 1196, which is to specify that, if a condition is satisfied, the current figure of a maximum basic rate (that is, the figure as produced after indexation on the most recent indexation day) is to be replaced with the 'living cost amount'. The condition that needs to be satisfied is that the indexed amount for the 'starting amount' (as defined in subsection (1)), worked out under section 1192 on an indexation day, but by disregarding MTAW benchmarking (under section 1195) and Division 3 of Part 3.16, is less than the living cost amount worked out on that indexation day using the method statement in the subsection. This will ensure that, in cases where there is greater positive movement in the PBLCI than in the CPI for a period, the indexed amount for the current figure will be produced in accordance with the PBLCI.

The **method statement** sets out a number of steps. The first step is to use section 1197 to work out the living cost indexation factor on the relevant indexation day. The second step is to work out the 'current figure' (as defined in subsection 20(1) of the Social Security Act) immediately before the relevant indexation day. This figure will effectively be the figure as adjusted under Part 3.16 on the previous indexation day and will be, in practice, the actual maximum basic rate of the relevant social security pension as at the most recent indexation day. The third step is to multiply the current figure by the living cost indexation factor to produce a 'provisional living cost amount'. The fourth step is to use section 1198 to round off the provisional living cost amount to produce the 'living cost amount'.

Section 1197 provides for the living cost indexation factor. Subject to subsection 1197(4) and 1197(5), the living cost indexation factor is modelled in subsection 1197(1) on the 'indexation factor' in section 1193 of the Social Security Act. The formula divides the living cost index number for the most recent reference quarter by the living cost index number for the base quarter. The indexation factor produced will be a number that expresses the most recent PBLCI number in terms of a previous PBLCI number (in practice, usually the one produced for the previous indexation day, assuming constant increases in the living cost).

Subsections 1197(2) and (3) contain definitions for terms used in section 1197. In subsection 1197(2), the 'living cost index number' in relation to a quarter, is the All Groups Pensioner and Beneficiary Living Cost Index number that is the weighted average of the eight capital cities and is published by the Australian Statistician in respect of that quarter. This definition is modelled on the definition of 'index number' in subsection 20(1) of the Social Security Act in order to ensure consistency in the comparison between the CPI and the PBLCI on indexation days.

In subsection 1197(3), the reference quarter for PBLCI indexation is, if the indexation day is 20 March, the most recent December quarter before the indexation day and, if the indexation day is 20 September, the most recent June quarter before the indexation day.

In subsection 1197(4), the base quarter for PBLCI indexation is the June or December quarter that is a quarter before the reference quarter and has the highest living cost index number other than the reference quarter.

The rounding rule in subsection 1197(5) is modelled on subsection 1193(2), again, to ensure consistency of comparison between the CPI and the PBLCI.

Subsection 1197(6) is modelled on subsection 1193(3) and ensures that, if the living cost index number for the most recent reference quarter is lower than the living cost index number for the base quarter (which would produce an indexation factor that is less than 1), the indexation factor is to be increased to 1. This will mean that in periods of negative growth in the PBLCI, pension rates cannot decrease.

Subsections 1197(7) and (8) are modelled on subsections 20(4) and (5) of the Social Security Act. These provisions address the possibility that the Australian Statistician may publish a PBLCI index number for a quarter to replace a previously published PBLCI index number and the possibility that the reference base may change at some time in the future. If a new living cost number is published to replace an already published one (for example, in the case of error or reassessment by the Australian Statistician), to ensure that pension rates do not have to be recalculated, subsection (7) provides that the publication of the later living cost index number is to be disregarded.

Subsection (8) provides that, if a new reference base is used for the PBLCI, regard is to be had only to numbers published in terms of the new base. This is to ensure that numbers published in terms of the new base cannot be compared to numbers published in terms of an outdated base, because doing so could produce unintended indexation factors.

New **section 1198** provides for the rounding of the provisional living cost amount to the nearest multiple of \$2.60, rounding up if the provisional living cost amount is exactly half way between the two nearest multiples of \$2.60.

Schedule 3 – Indexation using combined couple benchmark

Summary

From 20 March 2010, this Schedule provides for a new 'combined couple benchmark' for maximum basic rates, which will be 41.76 per cent of the annualised MTAWÉ figure. This will apply to certain social security pensions.

The maximum basic rate of a social security pension that can be paid to a person who is a member of a couple will be half the maximum combined couple rate of pension.

The maximum basic rate of pension for a single person will be 66.33 per cent of the maximum combined couple basic rate of pension. This will result in an effective benchmark of 27.7 per cent of MTAWÉ for the maximum single rate of pension.

Background

Prior to these amendments, for social security pensions, following indexation of the maximum basic rates for both singles and members of a couple in line with CPI increases, section 1195 applied to lift the indexed amount for the single maximum basic rate to 25 per cent of the annualised MTAWÉ figure, if this figure, for an indexation day, was greater than the CPI indexed amount. For members of a couple, their rate was increased proportionately. This ensured that, if, in any six-monthly period, growth in MTAWÉ outpaced inflation, the rate of pension was lifted in accordance with MTAWÉ on top of any adjustment made because of CPI indexation.

To ensure that the MTAWÉ benchmark continues to operate effectively for pensioners, the benchmark is also changing from a single rate of pension benchmark, to a combined couple rate of pension benchmark. A further change in this bill to set the maximum single rate of pension to 66.33 per cent of the maximum combined couple rate of pension ensures that the maximum single rate of pension will be set at a fixed percentage of the maximum combined couple rate of pension. This will also ensure that the \$30 a week increase in the maximum basic rate for a single pensioner, as provided by Schedule 1 to this bill, is preserved under future MTAWÉ benchmarking.

The commencement date of this measure is 1 January 2010, which is a date between the indexation days (see item 1 of the table in section 1191) of 20 September 2009 and 20 March 2010. This will ensure that the amendments made by this measure will have effect from the indexation day of 20 March 2010 and will not apply to an earlier indexation day.

Explanation of the changes

Amendments of the Social Security Act

Items 1, 2 and 3 add notes to the maximum basic rate modules of Pension Rate Calculators A, B and C to indicate that the maximum basic rate is adjusted six-monthly in accordance with the CPI and the PBLCI.

Item 4 changes the description of item 1 in the table in section 1190 to indicate that, as a result of the amendments being made by this measure, item 1 will now only apply to maximum basic rates for social security pensioners who are partnered or who are in receipt of pension PP (single).

Item 5 omits all the maximum basic rates of social security pensions payable to a person who is not a member of a couple, or is otherwise paid at the single rate (other than pension PP (single)) from item 1 of the table in section 1190 of the Social Security Act. Only rates payable to a person who is a member of a couple remain. This amendment is made because all single maximum basic rates of social security pensions (other than pension PP (single)) will, from 20 March 2010 be adjusted in accordance with new section 1198A, and therefore need to be listed in a new and separate item in the section 1190 table.

Item 6 inserts a new item in the table in section 1190 to refer to the single rates that are omitted by item 5. This is to ensure that these rates can be treated separately from the member of a couple rates and to allow for reference to be made to these amounts by new section 1198A.

Item 7 amends the definition of 'category A amount' in paragraph 1195(1)(a). Before this amendment, a 'category A amount' included all single maximum basic rates of pension. As a result of this amendment, a 'category A amount' is now restricted to the maximum basic rate of pension PP (single), which is the annual rate specified in point 1068A-B1.

Item 8 repeals subsection 1195(2) and replaces it with new subsections 1195(2) and (2A). New subsection 1195(2) applies only to maximum basic rates of pension PP (single) through referring to 'a category A amount'. It allows, as is currently the case for this pension, for the category A amount to be increased to 25 per cent of the annualised MTAW figure for the most recent June or December quarter if it is lower than the CPI indexed amount on an indexation day of 20 March or 20 September.

New subsection 1195(2A) applies to the maximum basic rate of pension payable to a person who is a member of a couple, defined in section 1195 as a 'category B amount'. It provides that, if a category B amount is to be indexed under this Division on an indexation day and 50 per cent of the combined couple benchmark for that indexation day exceeds the 'indexed amount' (see subsection 1192(1)) for the category B amount), then the indexed amount is to be increased by an amount equal to the excess and then rounded to the highest multiple of \$2.60. This will ensure that the maximum basic rate for a person who is a member of a couple will be set at, half of 41.76 per cent of the annualised MTAWWE figure, which is the 'combined couple benchmark'.

New subsection (2B) defines 'combined couple benchmark', for an indexation day, as 41.76 per cent of the annualised MTAWWE figure published by the Australian Statistician for the relevant quarter.

Item 9 inserts new section 1198A, which applies to the amounts referred to in new item 1AAA of the table in section 1190, abbreviated as 'single pension rate MBR'. It provides that the Social Security Act has effect as if, on an indexation day of 20 March or 20 September of each year, the adjusted single pension amount (as defined at step 4 of the method statement) were substituted for each single pension rate MBR amount. This effect of this section is to set the rate of single social security pensions (except for pension PP (single)) at 66.33 per cent of the maximum combined couple basic rate. The single to couple ratio of 66.33 per cent is also set in relation to the new pension supplement as set out in Schedule 4 to this bill.

The rounding rule at step 4 of the method statement in new section 1198A provides that the step 3 amount is to be rounded to the nearest multiple of \$2.60, and uses the words 'rounding up if necessary' in brackets. The intention of the words 'rounding up if necessary' is to ensure that, when the step 3 amount is not a multiple of \$2.60 but is a multiple of \$1.30, it is to be rounded up as, in this case, it will be necessary to decide whether to round up or down as both the higher and lower multiple will be equally near to the step 3 amount.

Schedule 4 – Pension supplements

Summary

In broad terms, this Schedule aims to simplify the payments made to pensioners living in Australia by consolidating a number of smaller payments and allowances into one 'pension supplement'.

In addition, this Schedule will provide for an increase to pension payments of an estimated \$10.14 per week for couples combined and \$2.49 per week for singles.

Background

Currently, individuals who are in receipt of a 'social security pension', as defined in section 23(1) of the Social Security Act, (excluding DSP recipients under 21 years) receive a 'pension supplement' (also known as the GST supplement) in addition to their base rate of payment. These individuals may also qualify for additional add-on type payments such as pharmaceutical allowance, telephone allowance and utilities allowance.

Currently, individuals who qualify for a seniors health card may receive a seniors concession allowance of \$518.80 a year (paid quarterly). Telephone allowance is also payable to cardholders if they or their partner subscribe to a telephone service, including the higher rate that applies if they also subscribe to a home internet connection.

The measure in this Schedule is designed to make pension payment arrangements simpler and easier to understand for pensioners. From 20 September 2009, the GST supplement, pharmaceutical allowance, utilities allowance and telephone allowance (at the higher internet rate) will be consolidated into the new pension supplement. Further, increases will be applied to the supplement, with couples receiving an estimated additional \$10.14 per week and singles receiving an estimated additional \$2.49 per week. The pension supplement will be payable to Australian residents in Australia, or temporarily absent from Australia, for 13 weeks or less.

The pension supplement will be paid fortnightly, in conjunction with the base pension. However, from 1 July 2010, pensioners will have greater choice in how frequently they receive this supplement. Pensioners will be able to choose to receive around half of the supplement on a quarterly basis instead of receiving it with their regular fortnightly payments.

A new seniors supplement will be established for seniors health card holders. The seniors concession allowance and the telephone allowance will be consolidated into the new seniors supplement. The single rate of the seniors supplement will include an extra \$129 a year, to bring it to two-thirds of the rate paid to a combined couple.

This Schedule will commence on 20 September 2009.

Explanation of the changes

Part 1 – Key Concepts

Amendments of the Social Security Act

Item 1 inserts a new section 20A into Part 1.2 of the Social Security Act that provides for the following new definitions:

- ***combined couple rate pension supplement,***
- ***combined couple rate of minimum pension supplement,***
- ***minimum pension supplement amount,***
- ***pension supplement basic amount,*** and
- ***tax exempt pension supplement.***

New subsection 20A(1) states that the combined couple rate of pension supplement is the sum of the following, rounded up to the nearest multiple of \$5.20:

- (a) four times the annual rate of utilities allowance paid to a member of a couple (not an illness separated, respite care separated or a temporarily separated couple); and
- (b) twice the annual rate of telephone allowance that is payable to a person who is partnered and whose partner is getting telephone allowance; and
- (c) twice the annual rate of pharmaceutical allowance for a person who is partnered; and
- (d) twice the annual rate of pension supplement basic amount for a person who is partnered; and
- (e) if \$525.20 exceeds twice the annual rate of utilities allowance for a person who is a member of a couple – the amount of the excess.

A note is inserted at the end of new subsection 20A(1) to advise the reader that the combined couple rate of pension supplement is to be indexed every six months in accordance with CPI increases. This is provided for in sections 1191 to 1194 of the Social Security Act.

A further note is inserted at the end of new subsection 20A(1) to advise the reader that the combined couple rate of pension supplement is an annual rate.

New subsection 20A(2) states that the combined couple rate of minimum pension supplement is the sum of the following amounts rounded up to the nearest multiple of \$5.20:

- (a) four times the annual rate of utilities allowance for a person who is a member of a couple (other than an illness separated couple, respite care couple or temporarily separated couple); and
- (b) twice the annual rate of telephone allowance that is payable to a person who is partnered and whose partner is receiving telephone allowance.

A note is inserted at the end of new subsection 20A(2) to remind the reader that the rate of minimum pension supplement is to be indexed every six months in accordance with CPI increases. This is provided for in sections 1191 to 1194 of the Social Security Act.

A further note is inserted at the end of new subsection 20A(2) to advise the reader that the combined couple rate of pension supplement is an annual rate.

New subsection 20A(3) states that the rates mentioned in subsection 20A(1) and subsection 20A(2) are the rates as at 20 September 2009. For example, the rate of utilities allowance referred to in paragraph 20A(1)(a) is the rate of utilities allowance indexed on 20 September 2009 by virtue of item 33AB of the table in subsection 1191(1).

A note is inserted at the end of new subsection 20A(3) to confirm that subsections 20A(1) and 20A(2) adopt the rates as indexed on 20 September 2009.

New subsection 20A(4) states that a person's annual rate of minimum pension supplement amount is worked out by reference to the combined couple rate of minimum pension supplement. Accordingly, a person who is not a member of a couple will have a minimum pension supplement amount that is 66.33 per cent of the combined couple rate. A person who is a member of a couple will have a minimum pension supplement amount that is 50 per cent of the combined couple rate. A person who is a member of an illness separated, or respite care separated couple, or a person whose partner is in gaol, will receive an amount that is equal to 66.33 per cent of the combined couple rate. That is, the rate for a person who is a member of an illness separated, or respite care separated couple, or a person whose partner is in gaol, is equal to the single rate.

A note is inserted at the end of subsection 20A(4) to confirm with the reader that a person's minimum pension supplement amount is an annual rate.

The new subsection 20A(5) provides for a definition of ***pension supplement basic amount***. This amount is equivalent to the rate of the former 'pension supplement', which was also known as the 'GST supplement'. The table sets out the different rates that apply to an individual in various family situations. The annual rate of pension supplement basic amount, up to and including 19 September 2009, for a person who is not a member of a couple is \$507, and the annual rate for a person who is partnered is \$423.80. As occurs generally with other payments and allowances, members of a illness separated and respite care separated couples, and a person who is partnered but whose partner is in gaol, will receive a rate of payment that is equal to the single rate.

The first of the notes inserted after the table in subsection 20A(5) advises the reader that the amount of pension supplement basic amount will be indexed on 20 September 2009 in line with any increase in CPI. It is the post-indexation rate of pension supplement basic amount that is to be used in the calculation of the combined couple rate of pension supplement.

The second note inserted after the table in subsection 20A(5) advises the reader that, except for the purposes of determining the rate of the combined couple pension supplement in subsection 20A(1), the rate of pension supplement basic amount is to be indexed every six months in line with CPI increases by virtue of section 1191 to section 1194 of the Social Security Act.

The third note inserted after the table in subsection 20A(5) reminds the reader that a person's pension supplement basic amount is an annual rate.

New subsection 20A(6) provides for a daily rate of ***tax-exempt pension supplement***. The amount of tax-exempt pension supplement is the individual's rate of pension supplement, less the pension supplement basic amount. The daily rate is calculated by dividing the annual rate of pension supplement by 364.

A new note is inserted after subsection 20A(6) to confirm to the reader that all of the pension supplement other than the pension supplement basic amount is to be exempt from income tax in accordance with section 52-10 and section 52-15 of the Income Tax Assessment Act.

Part 2 – Amendment of Rate Calculators

Amendments of the Social Security Act

Item 2 repeals step 2 in the method statement at point 1064-A1.

Item 3 omits the reference to step 2 in step 4 of the method statement in point 1064-A1.

Item 4 repeals module BA from the rate calculator in section 1064 and inserts a new Module BA.

New module BA sets out when the pension supplement is payable to an individual and the rate at which the minimum pension supplement is to be paid with reference to the individual's family circumstances.

New point 1064-BA1 states that the pension supplement is to be added to a person's maximum basic rate of pension.

New point 1064-BA2 states that, if a person is in Australia, or is temporarily absent from Australia for a continuous period of 13 weeks or less, the amount of pension supplement is to be worked out with reference to new point 1064-BA3 or new point 1064-BA4. New point 1064-BA3 is used to work out a person's rate of pension supplement if the individual has made an election to receive the minimum amount of pension supplement by quarterly instalment rather than as part of their fortnightly rate of pension. New point 1064-BA4 is used to calculate the person's rate of pension supplement where they have not elected to receive the minimum amount of pension supplement by quarterly instalment.

New point 1064-BA3 provides that a person's annual rate of pension supplement is worked out by reference to the table at the end of the point, which sets the rate of pension supplement as a percentage of the rate of combined couple pension supplement. The table provides that a person who is not a member of a couple receives a rate of pension supplement that is 66.33 per cent of the combined couple rate, and that a person who is partnered receives a rate of pension supplement that is 50 per cent of the combined couple rate. Members of illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to 66.33 per cent of the combined couple rate (that is, the same rate as a single person).

Subpoint 1064-BA3(b) provides that, where a person is not partnered and the amount calculated by reference to the table is not a multiple of \$2.60, then the annual rate of pension supplement is to be rounded to the nearest multiple of \$2.60. Where the annual rate of pension supplement for a single person is not a multiple of \$2.60 but is a multiple of \$1.30, the rate is to be rounded up to the nearest multiple of \$2.60.

A note is inserted at the end of point 1064-BA3 to direct the reader to the definition of combined couple rate of pension supplement as set out in subsection 20A(1).

A second note, inserted at the end of point 1064-BA3, reminds the reader that the combined couple rate of pension supplement is indexed every six months in line with CPI increases by virtue of sections 1191 to 1194.

Point 1064-BA4 applies to determine a person's pension supplement amount where the person has elected to receive the minimum amount of pension supplement by quarterly instalment. Point 1064-BA4 provides that a person's annual rate of pension supplement is worked out in accordance with point 1064-BA3 as if they had not elected to receive the quarterly payment of minimum pension supplement, then an amount equal to the minimum amount of pension supplement is subtracted from the result.

Point 1064-BA5 provides that the annual rate of pension supplement for a person who is absent from Australia, either permanently or temporarily for more than 13 weeks, is the rate of pension supplement basic amount that applies to that individual in their family circumstances.

Item 5 repeals module C of the rate calculator in section 1064. Module C provided for an amount of pharmaceutical allowance to be added to an individual's rate of pension. As the rates of pension supplement incorporate an amount for pharmaceutical allowance, individuals whose rate is determined by this calculator will no longer qualify for pharmaceutical allowance.

Item 6 repeals step 3 from the method statement in the rate calculator in section 1065.

Item 7 omits the references to steps 2A and 3 in step 4 of the method statement and inserts a reference to step 2A only.

Item 8 repeals module BA in the rate calculator in section 1065 and inserts a new module BA.

New module BA sets out when the pension supplement is payable to an individual and the annual rate at which the pension supplement is to be paid with reference to the individual's family circumstances.

New point 1065-BA1 states that the pension supplement is to be added to a person's maximum basic rate of pension.

New point 1065-BA2 states that, if a person is in Australia, or is temporarily absent from Australia for a continuous period of 13 weeks or less, the amount of pension supplement is to be worked out with reference to new point 1065-BA3 or new point 1065-BA4. New point 1065-BA3 is used to work out a person's annual rate of pension supplement if the individual has not made an election to receive the minimum amount of pension supplement by quarterly instalment rather than as part of their fortnightly rate of pension. New point 1065-BA4 is used to calculate the person's rate of pension supplement where they have elected to receive the minimum amount of pension supplement by quarterly instalment rather than as part of their fortnightly rate of pension.

New point 1065-BA3 provides that a person's annual rate of pension supplement is worked out by reference to the table at the end of the point, which sets the rate of pension supplement as a percentage of the rate of combined couple pension supplement. The table provides that a person who is not a member of a couple receives a rate of pension supplement that is 66.33 per cent of the combined couple rate, and that a person who is partnered receives a rate of pension supplement that is equal to 50 per cent of the combined couple rate. Members of illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to 66.33 per cent of the combined couple rate (that is, the same rate as a single person).

Subpoint 1065-BA3(b) provides that, where a person is not partnered and the amount calculated by reference to the table is not a multiple of \$2.60, then the annual amount of pension supplement is to be rounded to the nearest multiple of \$2.60. Where the rate of pension supplement for a single person is not a multiple of \$2.60 but is a multiple of \$1.30, the rate is to be rounded up to the nearest multiple of \$2.60.

A note is inserted at the end of point 1065-BA3 to direct the reader to the definition of combined couple rate of pension supplement as set in subsection 20A(1).

A second note inserted at the end of point 1065-BA(3) reminds the reader that the combined couple rate of pension supplement is indexed every six months in line with CPI increases by virtue of sections 1191 to 1194.

Point 1065-BA4 applies to determine a person's pension supplement amount where the person has elected to receive the minimum amount of pension supplement by quarterly instalment. Point 1065-BA4 provides that a person's annual rate of pension supplement is worked out in accordance with point 1065-BA3 as if they had not elected to receive the quarterly payment of minimum pension supplement, then that person's minimum amount of pension supplement is subtracted from the result.

Point 1065-BA5 provides that the annual rate of pension supplement for a person who is absent from Australia, either permanently or temporarily for more than 13 weeks, is the rate of pension supplement basic amount that applies to that individual with respect to their family circumstances.

Item 9 repeals module C from the rate calculator in section 1065. Module C provided for the rate of pharmaceutical allowance to be added to an individual's rate of pension. As the rate of pension supplement includes an amount equal to pharmaceutical allowance, individuals whose rate is determined by this calculator will no longer qualify for pharmaceutical allowance.

Item 10 repeals step 2 from the method statement in point 1066-A1.

Item 11 repeals the reference to step 2 in step 4 of the method statement in point 1066-A1

Item 12 repeals module BA from the rate calculator in section 1066 and inserts a new module BA.

New module BA sets out when the pension supplement is payable to an individual and the rate at which the pension supplement is to be paid with reference to the individual's family circumstances.

New point 1066-BA1 states that the pension supplement is to be added to a person's maximum basic rate of pension.

New point 1066-BA2 states that, if a person is in Australia, or is temporarily absent from Australia for a continuous period of 13 weeks or less, the amount of pension supplement is to be worked out with reference to new point 1066-BA3 or new point 1066-BA4. New point 1066-BA3 is used to work out a person's rate of pension supplement if the individual has not made an election to receive the minimum amount of pension supplement by quarterly instalment. New point 1066-BA4 is used to calculate the person's rate of pension supplement where they have elected to receive the minimum amount of pension supplement by quarterly instalment rather than as part of their fortnightly rate of pension.

New point 1066-BA3 provides that a person's annual rate of pension supplement is worked out by reference to the table at the end of the point, which sets the rate of pension supplement as a percentage of the rate of combined couple pension supplement. The table provides that a person who is not a member of a couple receives a rate of pension supplement that is 66.33 per cent of the combined couple rate, and that a person who is partnered receives a rate of pension supplement that is equal to 50 per cent of the combined couple rate. Members of illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to 66.33 per cent of the combined couple rate (that is, the same rate as a single person).

Subpoint 1066-BA3(b) provides that, where a person is not partnered and the amount calculated by reference to the table is not a multiple of \$2.60, then the amount of pension supplement is to be rounded to the nearest multiple of \$2.60. Where the rate of pension supplement for a single person is not a multiple of \$2.60 but is a multiple of \$1.30, the rate is to be rounded up to the nearest multiple of \$2.60.

A note is inserted at the end of point 1066-BA3 to direct the reader to the definition of combined couple rate of pension supplement as set in out subsection 20A(1).

A second note inserted at the end of point 1066-BA(3) reminds the reader that the combined couple rate of pension supplement is indexed every six months in line with CPI increases by virtue of sections 1191 to 1194.

Point 1066-BA4 applies to determine a person's pension supplement amount where the person has elected to receive the minimum amount of pension supplement by quarterly instalment. Point 1066-BA4 provides that a person's pension supplement is worked out in accordance with point 1066-BA3 as if they had not elected to receive the quarterly payment of minimum pension supplement, then person's minimum amount of pension supplement is subtracted from the result.

Point 1066-BA5 provides that the rate of pension supplement for a person who is absent from Australia, either permanently or temporarily for more than 13 weeks, is the rate of pension supplement basic amount that applies to that individual in their family circumstances.

Item 13 repeals module C from the rate calculator in section 1066. Module C provided for the rate of pharmaceutical allowance to be added to an individual's rate of pension. As the rate of pension supplement includes an amount equal to pharmaceutical allowance, individuals whose rate is determined by this calculator will no longer qualify for pharmaceutical allowance.

Item 14 repeals the notes at the end of point 1067G-B3A and substitutes a new note to provide that a person's maximum basic rate of pension PP (single) is indexed every six months in line with increases in MTAW.

Item 15 inserts a new step 1A after step 1 in the method statement at point 1067L-A1. Step 1A states that the second step in calculating a person's rate of austudy is to determine the rate, if any, of pension supplement that is payable to them in accordance with new module BA, as inserted by item 16 below.

Item 16 inserts a reference to the new step 1A in step 3 of the method statement in point 1067L-A1.

Item 17 inserts a new module BA immediately after module B in the rate calculator in section 1067L.

New module BA sets out when the pension supplement is payable to an individual and the rate at which the pension supplement is to be paid, with reference to the individual's family circumstances.

New point 1067L-BA1 states that pension supplement is to be added to a person's maximum basic rate of payment if that person has reached age pension age and they are in Australia or temporarily absent from Australia for a period not exceeding 13 weeks.

New point 1067L-BA2 states that the amount of pension supplement is to be worked out with reference to new point 1067L-BA3 or new point 1067L-BA4. New point 1067L-BA3 is used to work out a person's rate of pension supplement if the individual has not made an election to receive the minimum amount of pension supplement by quarterly instalment rather than as part of their fortnightly rate of pension. New point 1067L-BA4 is used to calculate the person's rate of pension supplement where they have elected to receive the minimum amount of pension supplement by quarterly instalment.

New point 1067L-BA3 provides that a person's rate of pension supplement is worked out by reference to the table at the end of the point, which sets the rate of pension supplement as a percentage of the rate of combined couple pension supplement. The table provides that a person who is not a member of a couple receives a rate of pension supplement that is 66.33 per cent of the combined couple rate, and that a person who is partnered receives a rate of pension supplement that is 50 per cent. Members of illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to 66.33 per cent of the combined couple rate (that is, the same rate as a single person). The combined couple rate of pension supplement is an annual rate and accordingly this rate is then divided by 26 to determine the fortnightly rate of pension supplement that is to be included in a person's austudy payment.

Subpoint 1067L-BA3(c) provides that, where a person is not partnered and the amount calculated by reference to the table is not a multiple of \$0.10, then the amount of pension supplement is to be rounded to the nearest multiple of \$0.10. Where the rate of pension supplement for a single person is not a multiple of \$0.10 but is a multiple of \$0.05, the rate is to be rounded up to the nearest multiple of \$0.10.

A note is inserted at the end of point 1067L-BA3 to direct the reader to the definition of combined couple rate of pension supplement as set in subsection 20A(1).

A second note inserted at the end of point 1067L-BA(3) reminds the reader that the combined couple rate of pension supplement is indexed every six months in line with CPI increases by virtue of sections 1191 to 1194.

Point 1067L-BA4 applies to determine a person's pension supplement amount where the person has elected to receive the minimum amount of pension supplement by quarterly instalment. Point 1067L-BA4 provides that a person's pension supplement is worked out in accordance with point 1067L-BA3, as if they had not elected to receive the quarterly payment of minimum pension supplement, then subtract an amount that is equal to 1/26 of that person's minimum amount of pension supplement from the result.

Item 18 omits point 1067L-C2 from the calculator and substitutes point 1067L-C1A and point 1067L-C2.

Item 19 inserts new point 1067L-C1A into the austudy rate calculator in section 1067L. New point 1067L-C1A provides that pharmaceutical allowance is not to be added to a person's maximum basic rate if that person has received an amount of pension supplement.

Item 20 inserts a new step 1A into the method statement after step 1. of benefit rate calculator B in section 1068. New step 1A provides that a person's pension supplement amount, if any, is worked out using module BA which is inserted by item 20.

Item 21 repeals the notes at the end of point 1068-B5 and substitutes a new note to provide that a person's maximum basic rate of pension PP (single) is indexed every six months in line with increases in MTAW.

Item 22 inserts a new module BA into the rate calculator in section 1068, after module B.

New module BA sets out when the pension supplement is payable to an individual and the rate at which the pension supplement is to be paid, with reference to the individual's family circumstances.

New point 1068-BA1 states that pension supplement is to be added to a person's maximum basic rate of pension if that person has reached age pension age and they are in Australia or temporarily absent from Australia for a period not exceeding 13 weeks.

New point 1068-BA2 states that the amount of pension supplement is to be worked out with reference to new point 1068-BA3 or new point 1068-BA4. New point 1068-BA3 is used to work out a person's rate of pension supplement if the individual has not made an election to receive the minimum amount of pension supplement by quarterly instalment. New point 1068-BA4 is used to calculate the person's rate of pension supplement where they have elected to receive the minimum amount of pension supplement by quarterly instalment rather than as part of their fortnightly rate of benefit.

New point 1068-BA3 provides that a person's rate of pension supplement is worked out by reference to the table at the end of the point, which sets the rate of pension supplement as a percentage of the rate of combined couple pension supplement. The table provides that a person who is not a member of a couple receives a rate of pension supplement that is 66.33 per cent of the combined couple rate, and that a person who is partnered receives a rate of pension supplement that is 50 per cent. Members of illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to 66.33 per cent of the combined couple rate (that is, the same rate as a single person). The combined couple rate of pension supplement is an annual rate and accordingly this rate is then divided by 26 to determine the fortnightly rate of pension supplement to be included in a person's benefit payment.

Subpoint 1068-BA3(c) provides that, where a person is not partnered and the amount calculated by reference to the table is not a multiple of \$0.10, then the amount of pension supplement is to be rounded to the nearest multiple of \$0.10. Where the rate of pension supplement for a single person is not a multiple of \$0.10 but is a multiple of \$0.05, the rate is to be rounded up to the nearest multiple of \$0.10.

A note is inserted at the end of point 1068-BA3 to direct the reader to the definition of combined couple rate of pension supplement as set out in subsection 20A(1).

A second note inserted at the end of point 1068-BA3 reminds the reader that the combined couple rate of pension supplement is indexed every six months in line with CPI increases by virtue of sections 1191 to 1194.

Point 1068-BA4 applies to determine a person's pension supplement amount where the person has elected to receive the minimum amount of pension supplement by quarterly instalment. Point 1068-BA4 provides that a person's pension supplement is worked out in accordance with point 1068-BA3, as if they had not elected to receive the quarterly payment of minimum pension supplement, an amount that is equal to 1/26 of that person's minimum amount of pension supplement is subtracted from the result.

Item 23 inserts a reference to point 1068-D3A before the reference to point 1068-D4 in point 1068-D1

Item 24 inserts a new point 1068-D3A after point 1068-D3. New point 1068-D3A provides that no pharmaceutical allowance is to be added to an individual's rate of payment if the minimum amount of pension supplement has been added to their payment rate. This is because an amount equal to pharmaceutical allowance is already included in the person's rate of pension supplement.

Item 25 repeals module BA of the parenting payment (single) rate calculator and inserts a new module BA into the rate calculator.

New module BA sets out when the pension supplement is payable to an individual and the rate at which the pension supplement is to be paid.

New point 1068A-BA1 states that pension supplement is to be added to a person's maximum basic rate of payment if that person has reached age pension age and they are in Australia or temporarily absent from Australia for a period not exceeding 13 weeks.

New point 1068A-BA2 states that the amount of pension supplement is to be worked out with reference to new point 1068A-BA3 or new point 1068A-BA4. New point 1068A-BA3 is used to work out a person's rate of pension supplement if the individual has not made an election to receive the minimum amount of pension supplement by quarterly instalment. New point 1068A-BA4 is used to calculate the person's rate of pension supplement where they have elected to receive the minimum amount of pension supplement by quarterly instalment rather than as part of their fortnightly rate of parenting payment.

New point 1068A-BA3 provides that a person's rate of pension supplement is an amount equal to 66.33 per cent of the combined couple rate. Point 1068A-BA3(c) provides that where the calculation of the annual rate of pension supplement does not result in a multiple of \$2.60 then the annual amount of pension supplement is to be rounded to the nearest multiple of \$2.60. Where the fortnightly rate of pension supplement is not a multiple of \$2.60 but is a multiple of \$1.30, the rate is to be rounded up to the nearest multiple of \$2.60.

A note is inserted at the end of point 1068A-BA3 to signpost the reader to the definition of combined couple rate of pension supplement as set out in subsection 20A(1).

Point 1068A-BA4 applies to determine a person's pension supplement amount where the person has elected to receive the minimum amount of pension supplement by quarterly instalment. Point 1068A-BA4 provides that a person's pension supplement is worked out in accordance with point 1068A-BA3, as if they had not elected to receive the quarterly payment of minimum pension supplement, then subtract an amount that is equal to that person's minimum amount of pension supplement from the result.

Point 1068A-BA5 provides that if a person is not covered by point 1068A-BA2 then that person's rate of pension supplement is the basic amount of pension supplement.

Item 26 inserts a reference to new point 1068A-C1A into the rate calculator before point 1068A-C2.

Item 27 inserts new point 1068A-C1 into the parenting payment (single) rate calculator. New point 1068A-C1 provides that no pharmaceutical allowance is to be added to an individual's rate of payment if an amount of pension supplement has been added to their payment rate. This is because the pension supplement includes a component to replace the pharmaceutical allowance.

Item 28 inserts a new step 2A into the method statement at point 1068B-A2. Step 2A provides that a person's rate of pension supplement, if any, is calculated using module DA as inserted by item 30.

Item 29 inserts a new step 2A into the method statement at point 1068B-A3. Step 2A provides that a person's rate of pension supplement, if any, is calculated using module DA as inserted by item 30.

Item 30 inserts a new module DA into the parenting payment (partnered) rate calculator in section 1068B.

New module DA sets out when the pension supplement is payable to an individual and the rate at which the pension supplement is to be paid in reference to the individual's family circumstances.

New point 1068B-DA1 states that pension supplement is to be added to a person's maximum basic rate of parenting payment if that person has reached age pension age and they are in Australia or temporarily absent from Australia for a period not exceeding 13 weeks.

New point 1068B-DA2 states that the amount of pension supplement is to be worked out with reference to new point 1068B-DA3 or new point 1068B-DA4. New point 1068B-DA3 is used to work out a person's rate of pension supplement if the individual has not made an election to receive the minimum amount of pension supplement by quarterly instalment. New point 1068B-DA4 is used to calculate the person's rate of pension supplement where they have elected to receive the minimum amount of pension supplement by quarterly instalment rather than as part of their fortnightly rate of parenting payment.

Point 1068B-DA3 provides that a person's rate of pension supplement is worked out by reference to the table at the end of the point, which sets the rate of pension supplement as a percentage of the rate of combined couple pension supplement. The table provides that a person who is partnered receives a rate of pension supplement that is 50 per cent, unless they are a member of an illness or respite care separated couples, or a person whose partner is in gaol, in which case they will receive pension supplement that is equal to 66.33 per cent of the combined couple rate. The combined couple rate of pension supplement is an annual rate and accordingly this rate is then divided by 26 to determine the fortnightly rate of pension supplement to be included in a person's benefit payment.

Point 1068B-DA3(c) provides that, where the calculation of the fortnightly rate of pension supplement does not result in a multiple of \$0.10, then the fortnightly amount of pension supplement is to be rounded to the nearest multiple of \$0.10. Where the fortnightly rate of pension supplement is not a multiple of \$0.10 but is a multiple of \$0.05, the rate is to be rounded up to the nearest multiple of \$0.10.

A note is inserted at the end of point 1068B-DA3 to direct the reader to the definition of combined couple rate of pension supplement as set out in subsection 20A(1).

Point 1068B-DA4 applies where the person has elected to receive the minimum amount of pension supplement by quarterly instalment. Point 1068B-DA4 provides that a person's pension supplement is worked out in accordance with point 1068B-DA3, as if they had not elected to receive the quarterly payment of minimum pension supplement, then subtract an amount that is equal to 1/26 of that person's minimum amount of pension supplement from the result.

Item 31 inserts a reference to point 1068B-E1A before the reference to point 1068B-E2.

Item 32 inserts a new point 1068B-E1A. New point 1068B-E1A provides that no pharmaceutical allowance is to be added to an individual's rate of payment if the minimum amount of pension supplement has been added to their payment rate. This is because the pension supplement already includes a component to take account of the rate of pharmaceutical allowance.

Part 3 – Seniors supplement and quarterly pension supplement

Amendments of the Social Security Act

Item 33 repeals part 2.25B and inserts a new Part 2.25B and a new Part 2.25C into the Social Security Act.

Division 1 of the new Part 2.25B of the Social Security Act sets out the qualification and payability criteria for the new seniors supplement.

This part replaces the references to the seniors concession allowance and inserts the provisions to support the payment of the new seniors supplement.

New section 1061U provides that an individual will qualify for the seniors supplement if they are the holder of a seniors health card.

New subsection 1061UA(1) provides that seniors supplement is payable to a person for each day that a person is qualified for the payment.

New subsection 1061UA(2) provides that the seniors supplement is not payable to an individual for a particular day if that person has elected, before the day, not to receive the supplement and that election has not been withdrawn, or if the individual has not provided the details of a bank account into which the supplement is to be paid.

New Division 2 of Part 2.25 of the Social Security Act sets out the rate of seniors supplement that will be payable to an individual.

New section 1061UB of the Social Security Act provides that the rate of seniors supplement is calculated by using the table at the end of the section to calculate an amount that is a percentage of the combined couple rate of minimum pension supplement as determined in new section 20A. A person who is not a member of a couple will receive a seniors supplement that is 66.33 per cent of the combined couple rate of minimum pension supplement. A person who is partnered will receive 50 per cent of the combined couple rate of minimum pension supplement. If an individual is a member of an illness separated, respite care or partner in gaol couple then the individual will receive a seniors supplement that is equal to 66.33 per cent of the combined couple rate of minimum pension supplement (that is, the same rate as a single person).

New paragraph 1061UB(1)(a) states that the rate of seniors supplement for a person who is not member of a couple is to be rounded to the nearest multiple of \$2.60, where the rate calculated is not already a multiple of \$2.60. In the event that the rate calculated by reference to the table is a multiple of \$1.30, then the person's rate is to be rounded up to the nearest multiple of \$2.60.

A note is inserted at the end of subsection 1061UB(1) signposting the reader to the definition of combined couple rate of minimum pension in subsection 20A(1).

New subsection 1061UB(2) states that a person's daily rate of seniors supplement is to be calculated by dividing the annual rate by 364.

New Part 2.25C sets out the provisions that are to apply where an individual elects to receive their minimum pension supplement as a quarterly instalment rather than as part of their fortnightly pension payments.

New subsection 1061V(1) states that new Part 2.25C is to apply where a minimum pension supplement would be used to work out the rate of the person's social security payment (the **main payment**) and the annual rate of pension supplement is more than the person's pension supplement basic amount.

A note is inserted at the end of subsection 1061V(1) that clarifies for the reader that when a person's pension supplement is more than the basic amount of pension supplement as defined in subsection 20A(5) it will contain a minimum component of pension supplement as defined in subsection 20A(4). Where a person receives an amount of pension supplement that includes a minimum amount of pension supplement, then that individual can choose to receive that minimum amount of pension supplement as a quarterly payment, rather than as a part of their fortnightly main payment.

Subsection 1061V(2) states that, where the rate calculator for the individual's main payment results in a fortnightly, rather than annual, rate of payment, then the person's pension supplement, as calculated in the relevant rate calculator, is to be multiplied by 26 to obtain the supplement's annual rate.

New subsection 1061VA(1) provides that a person may give notice to the Secretary, in such form as approved by the Secretary, that they want to receive the minimum pension supplement as a quarterly payment rather than as part of their fortnightly main payment.

New subsection 1061VA(2) provides that an election to receive a quarterly payment comes into force as soon as practicable after it is made.

New subsection 1061VA(3) provides that a person may give notice to the Secretary, in such form as approved by the Secretary, that they want to revoke the election to receive the minimum pension supplement as a quarterly payment rather than as part of their fortnightly main payment and return to receiving the minimum amount of pension supplement as part of their fortnightly payment.

New subsection 1061VA(4) provides that quarterly pension supplement is payable to a person for each day on which an election is in force.

New section 1061VB provides for the rate of quarterly pension supplement.

New subsection 1061VB(1) states that a person's annual rate of quarterly pension supplement is the person's rate of minimum pension supplement.

Subsection 1061VB(2) provides that a person's daily rate of quarterly pension supplement is the annual rate of quarterly pension supplement divided by 364.

New subsection 1061VB(3) provides that the section has effect subject to subsection 1210(3).

Amendments of the Social Security Administration Act

Item 34 repeals section 48B of the Social Security Administration Act and substitutes a new section 48B.

New subsection 48B(1) states seniors supplement is to be paid by instalments.

New subsection 48B(2) provides that seniors supplement is to be paid as soon as reasonably practicable on or after the first seniors supplement test day (the ***current test day***) that follows a day on which the person is qualified for seniors supplement.

New subsection 48B(3) provides that the amount of instalment is worked out by multiplying a person's daily rate by the number of days during the test period for which the individual qualified for seniors supplement.

Subsection 48B(4) defines ***seniors supplement test day*** to mean, 20 March, 20 June, 20 September and 20 December of each year. Subsection 48B(4) defines ***test period*** as being the period:

- (a) starting on the most recent supplement test day before the current test day; and
- (b) ending on the day immediately before the current test day.

New subsection 48C(1) that the quarterly pension supplement is to be paid by instalments.

New subsection 48C(2) provides that quarterly supplement is to be paid as soon as reasonably practicable on or after the first supplement test day (the ***current test day***) that follows a day on which the person has made an election to receive the minimum amount of pension supplement by quarterly rather than fortnightly payment.

New subsection 48C(3) sets out the method statement for determining the amount of quarterly pension supplement that is payable to an individual.

Step 1 divide the person's annual rate of quarterly pension supplement by 4.

Step 2 is to multiply the individual's daily rate of quarterly pension supplement by the number of days during the test period for which the person has made an election to receive the minimum amount of pension supplement by quarterly rather than fortnightly payment.

Step 3 is to multiply the person's daily rate of quarterly pension supplement by the number of days during the test period for which the person was qualified for seniors supplement and for which an election was in force for the person to receive the minimum amount of pension supplement by quarterly rather than fortnightly payment.

Step 4 is to subtract the results of step 2 and step 3 from the result of step 1.

New subsection 48C(4) defines **supplement test day** to mean, 20 March, 20 June, 20 September and 20 December of each year. Subsection 48C(5) defines **test period** as being the period:

- (a) starting on the most recent supplement test day before the current test day; and
- (b) ending on the day immediately before the current test day.

Part 4 – Other amendments

Amendments of the Income Tax Assessment Act

Item 35 of the Schedule inserts a new item 22B.1 and a new item 22C.1 into the table in section 52-10 of the Income Tax Assessment Act to provide that the seniors supplement and the quarterly pension supplement are exempt from income tax.

Item 36 repeals the table in section 52-15 of the Income Tax Assessment Act and substitutes a new table. The new table includes the tax-exempt pension supplement (as defined in new subsection 20A(6) of the Social Security Act) in the list of 'supplementary amounts' that are to be exempt from income tax.

Item 37 omits the reference to 'rental assistance' in the subsection 52-25(3) and substitutes the term 'rent assistance'.

Item 38 repeals item 22B in the table at section 52-40 of the Income Tax Assessment Act and inserts new item 22B and new item 22C into the table. This is to include the new parts of the Social Security Act that have been created by this Schedule and provide for the payment of the quarterly pension supplement and the seniors supplement.

Item 39 omits the reference to 'rental assistance' in the paragraph 52-70(a) and substitutes the term 'rent assistance'.

Item 40 omits the reference to 'rental assistance' in the paragraph 53-15(a) and substitutes the term 'rent assistance'.

Amendments of the Social Security Act

Item 41 inserts a new definition of 'combined couple rate of minimum pension supplement' into subsection 23(1) to include by reference to the definitions created by new subsection 20A(2).

Item 42 inserts a definition of ‘combined couple rate of pension supplement’ into subsection 23(1) by reference to the definitions in subsection 20A(1).

Item 43 inserts a definition of ‘minimum pension supplement amount’ into subsection 23(1) by reference to the definition in subsection 20A(4).

Item 44 inserts a definition of ‘pension supplement amount’ into subsection 23(1) and states that it is the amount worked out under the pension supplement module of the rate calculator used to determine the rate of the person’s social security payment.

Item 45 inserts a definition of ‘pension supplement basic amount’ into subsection 23(1) by reference to the definition created in subsection 20A(5).

Item 46 inserts a definition of ‘quarterly pension supplement’ into subsection 23(1) by reference to the definition created by new section 1061VA(1).

Item 47 repeals the definition of ‘seniors concession allowance’ in subsection 23(1).

Item 48 inserts a definition of ‘seniors supplement’ into subsection 23(1) by reference to the new Part 2.25B of the Social Security Act.

Item 49 inserts a definition of ‘tax-exempt pension supplement’ into subsection 23(1) by reference to the definition set out in subsection 20A(6).

Item 50 repeals subsection 44(2) of the Social Security Act and substitutes a new subsection 44(2) which provides that an individual’s age pension remains payable even though the rate is nil, where the individual’s rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly basis.

Item 51 omits the reference to ‘point 1065-BA2’ in subparagraph 93H(b)(ii) and substitutes the words ‘Module BA of Pension Rate Calculator B’.

Item 52 omits the reference to ‘point 1064-BA2’ in subparagraph 93J(3)(a)(ii) and substitutes the words ‘Module BA of Pension Rate Calculator A’.

Item 53 omits the reference to ‘point 1065-BA2’ in subparagraph 93J(3)(b)(ii) and substitutes the words ‘Module BA of Pension Rate Calculator B’.

Item 54 omits the reference to ‘point 1064-BA2’ in subparagraph 93J(4)(a)(ii) and substitutes the words ‘Module BA of Pension Rate Calculator A’.

Item 55 omits the reference to ‘point 1065-BA2’ in subparagraph 93J(4)(b)(ii) and substitutes the words ‘Module BA of Pension Rate Calculator B’.

Item 56 repeals subsection 98(2) of the Social Security Act and substitutes a new subsection 98(2), which provides that an individual's disability support pension remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 57 repeals subsection 148(2) of the Social Security Act and substitutes a new subsection 148(2), which provides that an individual's wife pension remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 58 repeals subsection 199(2) of the Social Security Act and substitutes a new subsection 199(2), which provides that an individual's carer payment remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 59 omits the reference to 'point 1064-BA2' in subsection 236A(3) and substitutes the words 'Module BA of Pension Rate Calculator A'.

Item 60 repeals subsection 316(2) of the Social Security Act and substitutes a new subsection 316(2), which provides that an individual's bereavement allowance remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 61 repeals subsection 364(2) of the Social Security Act and substitutes a new subsection 364(2), which provides that an individual's widow B pension remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 62 repeals subsection 408CA(2) of the Social Security Act and substitutes a new subsection 408CA(2), which provides that an individual's widow allowance remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 63 repeals subsection 500I(2) of the Social Security Act and substitutes a new subsection 500I(2), which provides that an individual's parenting payment remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 64 repeals subsection 572(2) of the Social Security Act and substitutes a new subsection 572(2), which provides that an individual's Austudy remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 65 repeals subsection 608(2) of the Social Security Act and substitutes a new subsection 608(2), which provides that an individual's Newstart remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 66 repeals subsection 677(2) of the Social Security Act and substitutes a new subsection 677(2), which provides that an individual's sickness allowance remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 67 repeals subsection 732(2) of the Social Security Act and substitutes a new subsection 732(2), which provides that an individual's special benefit remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 68 repeals subsection 771HC(2) of the Social Security Act and substitutes a new subsection 771HC(2), which provides that an individual's partner allowance remains payable even if the rate is nil, where the individual's rate is nil merely because they have received an advance of pharmaceutical allowance or because they have elected to receive the minimum amount of pension supplement on a quarterly, rather than fortnightly, basis.

Item 69 adds a subsection (3) at the end of section 1061G that provides that, although a person may be qualified for an advance of pharmaceutical allowance, the advance is not payable to the person if pharmaceutical allowance is not used to work out the rate of the person's social security payment.

Item 70 inserts a new paragraph 1061R(aa) before paragraph 1061R(a) in the Social Security Act to provide that an individual does not qualify for telephone allowance if they are in receipt of an amount of pension supplement that is greater than the person's pension supplement basic amount. A new paragraph 1061R(ab) is also inserted to provide that an individual does not qualify for telephone allowance if they are receiving seniors supplement. New paragraph 1061R(ac) provides that a person does not qualify for telephone allowance if they receive the minimum amount of pension supplement on a quarterly basis.

Item 71 inserts the number '1' before the start of section 1061T to divide the section into subsections.

Item 72 inserts a new subsection 1061T(2) into the Social Security Act to provide that an individual does not qualify for telephone allowance if they are in receipt of the minimum amount of pension supplement, either as part of their fortnightly payment or on a quarterly basis, or the seniors supplement.

Item 73 repeals paragraph 1061TA(2)(b) and substitutes a new paragraph 1061TA(2)(b) to remove the reference to seniors concession allowance but leave the reference to seniors concession allowance under the Veterans' Entitlements Act

Item 74 inserts the words 'an election by the person under subsection 1061VA(1) is in force, or merely because' after the word 'because' in subparagraph 1064-H1(aa)(ii).

Item 75 inserts the words 'an election by the person under subsection 1061VA(1) is in force, or merely because' after the word 'because' in subparagraph 1065-E1(aa)(ii).

Item 76 inserts the words 'an election by the person under subsection 1061VA(1) is in force, or merely because' after the word 'because' in subparagraph 1066-H1(aa)(ii).

Item 77 inserts the words 'quarterly pension supplement has been paid to the person, or merely because' after the word 'because' in subparagraph 1068-j1(aa)(ii).

Item 78 inserts the words 'an election by the person under subsection 1061VA(1) is in force, or merely because' after the word 'because' in subparagraph 1068A-F1(a)(ii).

Item 79 inserts the words 'an election by the person under subsection 1061VA(1) is in force, or merely because' after the word 'because' in subparagraph 1068B-G1(b)(ii).

Item 80 omits the reference to 'point 1064-BA2' (wherever it occurs) in subsection 1185K(4) and substitutes the words 'Module BA of Pension Rate Calculator A'.

Item 81 omits the reference to 'point 1064-BA2' (wherever it occurs) in subsection 1185Y(4) and substitutes the words 'Module BA of Pension Rate Calculator A'.

Item 82 repeals item 1AA in the table in section 1190 and inserts new items 1AA, 1 AB and 1AC into the table in section 1190 This item provides that the pension supplement amount, the minimum amount of pension supplement and the basic rate of pension supplement are to be indexed in accordance with CPI increases.

Item 83 repeals item 44 in the table in section 1190 and substitutes a new item 44 to reflect the changes to qualification for pharmaceutical allowance.

Item 84 repeals item 46 in the table in section 1190 and substitutes a new item 46 to reflect the changes to qualification for pharmaceutical allowance.

Item 85 repeals item 48 in the table in section 1190 and substitutes a new item 48 to reflect the changes to qualification for pharmaceutical allowance.

Item 86 repeals item 49A and 49B in the table in section 1190 and substitute a new item 49A and new item 49B to reflect the changes to qualification for pharmaceutical allowance.

Item 87 repeals item 56E from the table in section 1190 of the Social Security Act to remove reference to the seniors concession allowance which is being replaced with the seniors supplement.

Item 88 inserts a note at the end of the table in section 1190 of the Social Security Act to advise the reader that indexing the minimum amount of pension supplement will also result in indexation of the amount of seniors supplement and the amount of the quarterly pension supplement, as the rates of seniors supplement and quarterly pension supplement are determined by reference to the minimum amount of pension supplement.

Item 89 repeals item 1A of the table in subsection 1191(1) and inserts new items 1A, 1B and 1C into the table in subsection 1191(1) This item provides that the rate of pension supplement, the minimum amount of pension supplement, and the basic rate of pension supplement are to be indexed on each indexation day for the amount, using the reference quarter and base quarter for the amount and indexation day and rounding off to the nearest multiple of the rounding amount.

Item 90 repeals item 33AE from the table in subsection 1191(1) of the Social Security Act to remove reference to the seniors concession allowance which is being replaced with the seniors supplement.

Item 91 inserts a new subsection 1192(3B) and new subsection 1192(3C) into section 1192.

New subsection 1192(3B) provides that the first indexation for the pension supplement and the pension supplement minimum amount is to occur on 20 March 2010.

New subsection 1192(3C) provides that the first indexation for the basic amount of pension supplement is 20 September 2009. This subsection provides that the old pension supplement will be indexed on 20 September 2009 and that it is the post-indexation figure that is used to calculate the amount of new pension supplement in accordance with the provisions of section 20A.

Item 92 repeals subsection 1192(6A).

Item 93 repeals section 1210 of the Social Security Act and substitutes a new section 1210 to include the pension supplement, the minimum amount of pension supplement and the basic amount of the pension supplement for the purposes of the application of the income and assets test. New subsection 1210(1) ensures that either the minimum amount of pension supplement or pharmaceutical allowance (whichever is applicable to the individual) is the last portion of an individual's social security payment to be reduced as a result of the application of the income or assets test. That is, where the income or assets test reduces the amount of social security payment to be paid to an individual the pension supplement (or pharmaceutical allowance, whichever is payable) are to be the last components to be reduced.

A note is inserted at the end of subsection 1210(1) to advise the reader that item 5 in the table will not apply to a person if they have elected to receive their rate of minimum pension supplement as a quarterly instalment rather than as part of their regular fortnightly payments as the rate would already have been reduced to nil.

New paragraph 1210(2)(a) provides that items 2, 3 and 5 in the table in subsection 1210(1) are to be ignored if the individual receives pharmaceutical allowance as part of their fortnightly rate.

New paragraph 1210(2)(b) provides that item 6 of the table in subsection 1210(1) is to be ignored if the individual receives pension supplement as part of their fortnightly rate.

New subsection 1210(3) provides that, if a person is to receive pension supplement in addition to their usual fortnightly payment, the rate of fortnightly payment is reduced by the application of in the income and assets test, and the person has elected to receive the minimum amount of pension supplement as a quarterly rather than fortnightly payment, the quarterly instalment is to be reduced to the same extent, if any, that their minimum pension supplement would be reduced if they were receiving it on a fortnightly basis.

The note at the end of subsection 1210(3) reminds the reader that unless the quarterly pension is reduced to nil, the individual will continue to receive the whole amount of quarterly pension supplement by virtue of subsection 43(5A).

New subsection 1210(4) provides sets out the details of which rate calculators include payment of pension supplement and which rate calculators include payment of pharmaceutical allowance, and signposts the reader to the relevant module of the rate calculator. In addition, the table signposts the reader to the relevant income and assets test modules of the various rate calculators.

Amendments of the Social Security Administration Act

Item 94 repeals section 12D of the Social Security Administration Act, which states that no claim is required for the seniors concession allowance. The item also inserts a new section 12D to provide that no claim is required for the seniors supplement and a new section 12DA to provide that no claim is required for the quarterly pension supplement.

Item 95 repeals subsection 43(4) and subsection 43(5) and substitutes new subsection 43(4), (5) and (5A) to provide that, where any amount of pharmaceutical allowance, minimum amount of pension supplement, or quarterly pension supplement is payable after the application of the income or assets tests, then the full amount is to be paid to the recipient. For example, if, after the application of the income or assets test, a person's pension rate is greater than nil but less than the full amount of the minimum pension supplement, then the full amount of the pension supplement is payable to the person.

Item 96 inserts a reference to the new section 48C of the Social Security Administration Act after the reference to section 48B in subsection 55(1) of the Social Security Administration Act.

Item 97 omits the reference to 'seniors concession allowance' and substitutes a reference to 'seniors supplement' in subsection 68(1) and subsection 69(1) of the Social Security Administration Act.

Item 98 omits the reference to 'seniors concession allowance' and substitutes a reference to the 'seniors supplement' in paragraph 75(1)(b).

Item 99 omits the reference to 'seniors concession allowance' and substitutes a reference to the 'seniors supplement' in section 78A.

Item 100 omits the reference to 'seniors concession allowance' and substitutes a reference to the 'seniors supplement' in section 90A.

Item 101 omits the reference to 'seniors concession allowance' and substitutes a reference to the 'seniors supplement' in paragraph (e) of the definition of a 'relevant payment' in section 123A for the purposes of income management.

Item 102 inserts a new paragraph (f) into the definition of 'relevant payment' in section 123A for the purposes of income management.

Part 5 – Application and transitional

Item 103 provides for a transitional rate of pension supplement that will only apply to the single rate for a limited period starting on 20 September 2009 and ending on 19 March 2010 inclusive.

Subitem 103(1) provides that, for the period between 20 September 2009 and 19 March 2010, the Social Security Act is amended in accordance with subitem 103(2) through to subitem 103(9).

Subitem 103(2) provides that subsection 20A(7) will be inserted into section 20A. Subsection 20A(7) provides for the definition and calculation of a 'temporary singles' amount' for the pension supplement that is to be comprised of the sum of the following components and rounded up to the nearest multiple of \$2.60:

- (a) the annual rate of utilities allowance for a person who is not a member of a couple;
- (b) the annual rate of telephone allowance, at the increased rate for home internet connection, for a person who is not a member of a couple;
- (c) the annual rate of pharmaceutical allowance for a person who is not a member of a couple;
- (d) the basic amount of the pension supplement; and
- (e) \$130.

Subitem 103(2) provides that transitional subsection 20A(8) is to be inserted into section 20A which provides that the rates referred to in transitional subsection 20A(7) are the rates for those components as at 20 September 2009. That is, the components of the temporary singles amount of pension supplement are to be indexed first in line with CPI increases on 20 September 2009 and those post-indexation figures used in the calculation of the temporary singles amount of pension supplement.

Subitem 103(3) temporarily omits point 1064-BA3 and temporarily substitutes a new point 1064-BA3. Transitional point 1064-BA3 provides a person who is partnered receives a rate of pension supplement that is 50 per cent of the combined couple rate of pension supplement. People who are single, or a member of an illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to the temporary singles amount.

The note inserted at the end of 1064-BA3 remain to direct the reader to the definition of combined couple rate of pension supplement in section 20A.

Subitem 103(4) temporarily omits point 1065-BA3 and temporarily substitutes a new point 1065-BA3. Transitional point 1065-BA3 provides that a person who is partnered receives a rate of pension supplement that is 50 per cent of the combined couple rate of pension supplement. People who are single, or a member of an illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to the temporary singles amount.

The note inserted at the end of 1065-BA3 remain to signpost the reader to the definition of combined couple rate of pension supplement in section 20A.

Subitem 103(5) temporarily omits point 1066-BA3 and temporarily substitutes a new point 1066-BA3. Transitional point 1066-BA3 provides that a person who is partnered receives a rate of pension supplement that is 50 per cent of the combined couple rate of pension supplement. People who are single, or a member of an illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to the temporary singles amount.

The note inserted at the end of 1066-BA3 remain to direct the reader to the definition of combined couple rate of pension supplement in section 20A.

Subitem 103(6) temporarily omits point 1067L-BA3 and temporarily substitutes a new point 1067L-BA3. Transitional point 1067L-BA3 provides a person who is partnered receives a rate of pension supplement that is $\frac{1}{26}$ of 50 per cent of the combined couple rate of pension supplement. People who are single, or a member of an illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to $\frac{1}{26}$ of the temporary singles amount.

The notes inserted at the end of 1067L-BA3 remain to signpost the reader to the definition of combined couple rate of pension supplement in section 20A.

Subitem 103(7) temporarily omits point 1068-BA3 and temporarily substitutes a new point 1068-BA3. Transitional point 1068-BA3 provides a person who is partnered receives a rate of pension supplement that is $\frac{1}{26}$ of 50 per cent of the combined couple rate of pension supplement. People who are single, or a member of an illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to $\frac{1}{26}$ of the temporary singles amount.

The note inserted at the end of 1068-BA3 remain to direct the reader to the definition of combined couple rate of pension supplement in section 20A.

Subitem 103(8) temporarily omits point 1068A-BA3 and temporarily substitutes a new point 1068A-BA3. Transitional point 1068A-BA3 provides that the rate of pension supplement for a person receiving parenting payment (single) is to be at the temporary singles rate.

The note inserted at the end of 1068A-BA3 remain to signpost the reader to the definition of combined couple rate of pension supplement in section 20A.

Subitem 103(9) temporarily omits point 1068B-DA3 and temporarily substitutes a new point 1068B-DA3. Transitional point 1068B-DA3 provides a person who is partnered receives a rate of pension supplement that is 1/26 of 50 per cent of the combined couple rate of pension supplement. People who are single, or a member of an illness or respite care separated couples, or a person whose partner is in gaol, will receive pension supplement that is equal to 1/26 of the temporary singles amount.

The note inserted at the end of 1068B-DA3 remain to signpost the reader to the definition of combined couple rate of pension supplement in section 20A.

Item 104 provides that, despite the repeal of Part 2.25B of the Social Security Act and section 48B of the Social Security Administration Act, these provisions will continue to apply in relation to the seniors concession allowance test day on 20 September 2009 as if the repeals had not occurred. This is because the seniors concession allowance is paid in relation to the previous quarter and the test day for payment of this allowance is 20 September 2009. Accordingly, holders of a seniors health card will receive a quarterly payment of seniors concession allowance on 20 September 2009 and will receive seniors supplement on the next test day, being 20 December 2009.

Item 105 provides that, under the provisions of new Part 2.25C, individuals can only elect to receive the minimum amount of pension supplement as a quarterly pension supplement after 1 July 2010.

Schedule 5 – Flow-through of pension supplement to CPRS

Summary

Due to timing discrepancies between the introduction of the Carbon Pollution Reduction Scheme (Household Assistance) Bill 2009 and this bill, it was not possible for the increases to pension payments to be precisely drafted and included in the earlier bill.

The amount of pension supplement payable to individuals is to be increased to compensate recipients of those payments for anticipated increases in the cost of living arising out of the introduction of the Carbon Pollution Reduction Scheme.

The amendments proposed in this bill will also remove the legislative instrument powers that were included in the Carbon Pollution Reduction Scheme (Household Assistance) Bill 2009 to ensure the Government's commitments as set out in the White Paper for the Carbon Pollution Reduction Scheme could be implemented despite the original timing discrepancy.

Background

In broad terms, this Schedule amends what will become the *Carbon Pollution Reduction Scheme (Household Assistance) Act 2009*.

This Schedule provides for increases to pension payments as a result of expected increases in the living cost index arising from the introduction of the Carbon Pollution Reduction Scheme. Pensioners will receive an increase to payments totalling 2.8 per cent over the first two years of the scheme.

This Schedule will commence immediately after the commencement of Schedule 1 to the *Carbon Pollution Reduction Scheme Amendment (Household Assistance) Act 2009* but, if that Schedule does not commence, then the provisions of this Schedule do not commence at all.

Explanation of the changes

Part 1 – Amendments to Division 8 of Part 3.16

Amendments to the Social Security Act

Item 1 repeals paragraph 1061ZAAZA(2)(a) and paragraph 1061ZAAZA(2)(b) which relate to the types of payments that are ‘excluded payments’ for the purposes of determining qualification for the carbon pollution reduction transitional payment and substitutes new paragraph 1061ZAAZA(2)(a) and paragraph 1061ZAAZA(2)(b). These paragraphs amend the types of payments that are considered ‘excluded payments’ and ensure that excluded payments are only those payments that have been increased to account for the Carbon Pollution Reduction Scheme.

Item 2 inserts a new paragraph (ea) into subsection 1061ZAAZA(2) to include seniors concession allowance paid under the Veterans’ Entitlements Act to the list of excluded payments for the purposes of determining qualification for the carbon pollution reduction transitional payment.

Item 3 repeals note 3 at the end of subsection 1192(2) and substitutes a new note 3 to advise the reader that indexation of certain payments after 1 July 2012 will be adjusted in accordance with the provisions of Division 8.

Item 4 omits the reference to a note at the end of subsection 1196(2) and substitutes a reference to note 1.

Item 5 inserts note 2, which advises the reader that indexation of certain payments after 1 July 2012 will be adjusted in accordance with the provisions of Division 8.

Item 6 repeals Division 8 of Part 3.16 and substitutes a new Division 8 into the part. In broad terms, new Division 8 provides rules for increasing the relevant social security rates by 2.8 per cent over two years. The new Division sets out the increases to payments to assist with the anticipated cost of living increases arising out of the Carbon Pollution Reduction Scheme.

New subsection 1206GF(1) sets out that the objects of the Division are to increase certain amounts that affect the rate at which payments are made to individuals under the social security law. The increases are to be provided by way of assistance in respect of expected rises in the cost of living as a result of the implementation of the Carbon Pollution Reduction Scheme. This subsection sets out that the following payments will be increased:

- (a) age pension;
- (b) austudy payment;
- (c) bereavement allowance;
- (d) carer payment;

- (e) disability support pension;
- (f) newstart allowance;
- (g) parenting payment;
- (h) partner allowance;
- (i) sickness allowance;
- (j) widow allowance;
- (k) widow B pension;
- (l) wife pension;
- (m) youth allowance;
- (n) social security payments of kinds specified under new section 1206GJ.

Subsection 1206GF(2) specifies that the second object of the Division is to adjust future indexation of payments. The increases provided in this bill bring forward the increases to the Consumer Price Index (CPI) that are expected to flow from the introduction of the Carbon Pollution Reduction Scheme. To avoid duplication of the increases, which would ordinarily flow to payments after the CPI increase occurs, subsequent indexation arrangements are to be adjusted.

Subdivision B – Increases to benefits

New section 1206GG applies increases to the rates specified in the table. The table also sets out the rounding base that is to apply for each payment.

New paragraph 1206GG(a) identifies the first set of rates to which the increases will apply. These **base amounts** are listed in Column 1 of the table (a brief description of the rate is provided in column 2 of that table).

New paragraph 1206GG(b) identifies the second set of rates to which the increases will apply. These amounts will be specified in accordance with new section 1206GN.

A note at the end of new section 1206GG indicates to the reader that the base amounts listed in the table are as indexed or adjusted from time to time under Division 2 of Part 3.16.

New section 1206GH provides for a 1 per cent increase on 1 July 2011 to the base amount of those payments set out in the table in section 1206GG. The effect of the section is that, on 1 July 2011, each base amount is replaced with an amount (the **replacement amount**) that is worked out by first calculating the **provisional replacement amount** and then applying the rounding rules to that figure.

By virtue of new paragraph 1206GH(a), the provisional replacement amount is calculated by determining a figure that is 1 per cent greater than the base amount.

New paragraph 1206GH(b) needs to be read in conjunction with the rounding bases specified in column 3 of the table in new section 1206GG.

New paragraph 1206GH(b) provides that, if the provisional replacement amount (that is, the amount that has been increased by 1 per cent) is a multiple of the relevant rounding base, then the provisional replacement amount is the replacement amount. That is, the provisional replacement amount will become the new rate. If the provisional replacement amount is not a multiple of the relevant rounding base, then it is rounded up or down to the nearest multiple of the rounding base and the resultant amount is the replacement amount. If the provisional replacement amount is a multiple of half the rounding base, then the provisional replacement amount is rounded up to the nearest multiple of the rounding base.

A note is inserted at the end of section 1206GH to advise the reader that the 1 per cent increase provided for in the section includes a 'brought forward' increase of 0.4 per cent that represents the expected cost of living increase arising as a result of the introduction of the Carbon Pollution Reduction Scheme.

New section 1206GI provides for a 1.8 per cent increase to the base amount on 1 July 2012. The effect of the section is that, on 1 July 2012, each base amount is replaced with an amount (the **replacement amount**) that is worked out by first calculating the **provisional replacement amount** and then applying rounding rules to that figure.

By virtue of new paragraph 1206GI(a), the provisional replacement amount is calculated by determining a figure that is 1.8 per cent greater than the base amount.

New paragraph 1206GI(b) needs to be read in conjunction with the rounding bases specified in column 3 of the table in the new section 1206GG.

New paragraph 1206GI(b) provides that, if the provisional replacement amount (that is, the amount that has been increased by 1.8 per cent) is a multiple of the relevant rounding base, then the provisional replacement amount is the replacement amount. That is, the provisional replacement amount will become the new rate. If the provisional replacement amount is not a multiple of the relevant rounding base, then it is rounded up or down to

the nearest multiple of the rounding base and the resultant amount is the replacement amount. If the provisional replacement amount is a multiple of half the rounding base, then the provisional replacement amount is rounded up to the nearest multiple of the rounding base.

A note is inserted at the end of section 1206GI to advise the reader that the 1.8 per cent increase provided for in the section includes a 'brought forward' increase of 0.8 per cent that represents the expected cost of living increase arising as a result of the introduction of the Carbon Pollution Reduction Scheme.

Given the long lead time for the commencement of the Carbon Pollution Reduction Scheme it is anticipated that there may be additional social security payments that are subsequently inserted into the Social Security Act or otherwise identified and that ought to be increased to account for the Carbon Pollution Reduction Scheme, and subsequent indexation adjusted accordingly. These subsequently identified payments could then be increased directly by the provisions contained in the new section 1206GH and new section 1206GI.

This subdivision includes the capacity for the Minister to specify, by legislative instrument, that the provisions relating to increases and adjustment of indexation apply to certain payments. These legislative instrument provisions potentially extend the application of the increases and are therefore beneficial in effect.

New subsection 1206GJ(1) provides that the Minister may, by legislative instrument, specify further kinds of payments in the Social Security Act to which Division 8 applies.

A note is inserted at the end of new subsection 1206GJ(1) that directs the reader to subsection 13(3) of the *Legislative Instruments Act 2003* for the rules relating to specification by class.

New subsection 1206GJ(2) provides that the Minister may specify the kinds of payments to which this subdivision applies by either or both of the following:

- (a) the persons to whom payments are to be made; or
- (b) the circumstances in which payments are to be made.

New subsection 1206GJ(3) states that subsection 1206GJ(2) is not to limit the operation of subsection 1206GJ(1).

New section 1260GK states that the Minister may, by legislative instrument, specify that Subdivision B of the new Division 8 applies to a specified amount that affects the rate at which a kind of payment under this Act is made. That is, the Minister may specify that the increases to payments apply to a particular portion of a payment, rather than the payment in its entirety.

A note is inserted at the end of new subsection 1206GK(1) that directs the reader to subsection 13(3) of the *Legislative Instruments Act 2003* for the rules relating to specification by class.

A second note is inserted at the end of new subsection 1206GK(1), after the note mentioned above, that states a specified kind of payment could be a kind of payment specified under the new section 1206GJ.

New subsection 1206GK(2) states that, if a Minister does specify a payment, or a portion of a payment under the new subsection 1206K(1), the Minister must also specify the rounding base that is to apply for that specified payment, or portion of payment, for the purposes of the rounding provisions contained in the new section 1206GH and the new section 1206GI.

New subsection 1206GK(3) states that the Minister may specify an amount by reference to the fact that it affects the rate at which a specified kind of payment under the Social Security Act is made to specified persons or in specified circumstances.

New subsection 1206GK(4) states that an instrument made by the Minister under subsection 1206GK(1) may specify that Subdivision B of new Division 8 applies to an amount so far as it affects the rate at which a specified kind of payment under the Social Security Act is made to specified persons or in specified circumstances.

New subsection 1206GK(5) provides that subsection 1206GK(3) and subsection 1206GK(4) are not intended to limit the ability of the Minister to make a legislative instrument pursuant to new subsection 1206GK(1).

New subsection 1206GK(6) provides that the legislative instrument made by the Minister pursuant to subsection 1206GK(1) will have effect in accordance with its terms irrespective of any other provision contained in this bill.

Subdivision C – Adjustment of indexation for benefits

New section 1206GL and new section 1206GM provide for adjusted CPI indexation of the amounts that were subject to the increases provided for under new section 1206GH and new section 1206GI.

The relevant social security rates will be increased by a total of 2.8 per cent over the first two years of the scheme. This includes a 1 per cent increase from 1 July 2011 and a further 1.8 per cent increase on 1 July 2012, including upfront indexation.

The 1 per cent increase on 1 July 2011 incorporates a 0.4 per cent component that represents a bring forward on future CPI increases. The 1.8 per cent increase on 1 July 2012 incorporates a 0.8 per cent component that represents a bring-forward on future CPI increases. The 0.4 per cent and the 0.8 per cent figures represent the two expected increases in the CPI as a result of the Carbon Pollution Reduction Scheme.

The new subsection 1206GL(1) provides for special rules around indexation of some amounts on or after 20 March 2012.

By virtue of section 1193 of the Social Security Act, payment rates are indexed in accordance with CPI, as per the table in section 1191, by the application of an 'indexation factor'.

For youth allowance and Austudy, the indexation factor is applied on 1 January each year. For the other amounts to which the new Subdivision B of Division 8 applies, the indexation factor is applied on 20 March and 20 September each year.

New subsection 1206GL(1) states that, for the indexation factors that apply after 20 March 2012, the indexation factor is to be reduced by the **brought forward indexation amount**, but that the indexation factor is not to fall below 1.

New subsection 1206GL(2) creates a definition of brought forward indexation amount for the purposes of this section. The brought forward indexation amount is 0.004 less any reduction made under this section for a previous indexation day. In the event that multiple indexation adjustments are necessary, it is intended that the combined adjustments total no more than 0.004.

A note is inserted at the end of the new subsection 1206GL(2) to state that, once the brought forward indexation amount equals zero, there is no further reduction of the indexation factor that would ordinarily apply by virtue of section 1193 of the Social Security Act.

An example is also inserted at the end of the new subsection 1206GL(2) to provide the reader with a clear picture of how the adjustment of the indexation provisions will apply.

New subsection 1206GL(3) states that this section is only to apply to a person's rate of payment if that rate of payment was previously affected by new section 1206GH.

The new subsection 1206GM(1) provides for special rules around indexation of some amounts on or after 20 March 2013.

By virtue of section 1193 of the Social Security Act, payment rates are indexed in accordance with CPI, as per the table in section 1191, by the application of an 'indexation factor'.

For youth allowance and Austudy, the indexation factor is applied on 1 January each year. For the other amounts to which new Subdivision B of Division 8 applies, the indexation factor is applied on 20 March and 20 September each year.

New subsection 1206GM(1) states that, for the indexation factors that apply after 20 March 2013, the indexation factor is to be reduced by the **brought forward indexation amount**, but that the indexation factor is not to fall below 1.

New subsection 1206GM(2) creates a definition of brought forward indexation amount for the purposes of this section. The brought forward indexation amount is 0.008 less any reduction made under this section for a previous indexation day.

A note is inserted at the end of the new subsection 1206GM(2) to state that, once the brought forward indexation amount equals zero, there is no further reduction of the indexation factor that would ordinarily apply by virtue of section 1193 of the Social Security Act. In the event that multiple indexation adjustments are necessary, it is intended that the combined adjustments total no more than 0.004.

An example is also inserted at the end of the new subsection 1206GM(2) to provide the reader with a clear picture of how the adjustment of the indexation provisions will apply.

New subsection 1206GM(3) states that this section is only to apply to a person's rate of payment if that rate of payment was previously affected by new section 1206GI.

Subdivision D – increases to pensions relating to 1 July 2011

New section 1206GN sets out when subdivision D of Division 8 will apply to a person's rate of payment. Section 1206GN states that the increases in payments, and adjustment of indexation, provided for in this subdivision will apply where;

- (a) a pension supplement amount is used to work out the rate of that person's pension under rate calculator A, B or C or Pension PP (Single) Rate Calculator; and
- (b) a person receives a rate of pension supplement that is greater than the basic amount of pension supplement.

New paragraph 1206GO(1)(a) provides that on 1 July 2011 the rate of pension supplement, for a person receiving more than the basic amount of pension supplement will increase by the 'CPRS amount' which is defined in subsection 1206GO(3).

New paragraph 1206GO(1)(b) provides that where the increase provided for in subsection 1206GO(1) produces an amount that is not a multiple of \$2.60 then the amount will be rounded to the nearest multiple of \$2.60. Where the result is not a multiple of \$2.60 but is a multiple of \$1.30 the amount is to be rounded up to the nearest multiple of \$2.60.

New paragraph 1206GO(2)(a) provides that on 1 July 2011 a person's rate of minimum amount of pension supplement will increase by the 'CPRS amount' which is defined in subsection 1206GO(3)

New paragraph 1206GO(2)(b), provides that where the increase provided for in subsection 1206GO(2) produces an amount that is not a multiple of \$2.60 then the amount will be rounded to the nearest multiple of \$2.60. Where the result is not a multiple of \$2.60 but is a multiple of \$1.30 the amount is to be rounded up to the nearest multiple of \$2.60.

Paragraph 1206GO(3)(a) provides that the 'CPRS amount' for a person who receives a social security pension calculated under Pension Rate Calculator A is the sum of:

- (a) 1 per cent of the person's maximum basic rate of payment; and
- (b) 1 per cent of the person's basic amount of pension supplement.

Paragraph 1206GO(3)(b) provides that for all other pension recipients paragraph 1206GO(3)(a) is worked out for them as if they were receiving a payment under Pension Rate Calculator A. For example, a person receiving widow B pension will have a CPRS amount that is the sum of

- (a) 1 percent of the maximum basic rate for a person who receives a rate of payment under pension rate calculator A; and
- (b) 1 per cent of the person's basic amount of pension supplement.

A note is inserted at the end of section 1206GO to advise the reader that the 1 per cent increase includes the estimated cost of living increase of 0.4 per cent for the 2011-12 financial year that has been brought forward and that future indexation will be adjusted to avoid duplication of this brought forward amount.

New section 1206GP provides for special rules around indexation of some amounts on or after 20 March 2012.

By virtue of section 1193 of the Social Security Act, payment rates are indexed in accordance with CPI, as per the table in section 1191, by the application of an 'indexation factor'. The indexation factor is applied on 20 March and 20 September each year.

New subsection 1206GP(1) states that, for the indexation factors that apply to a person's maximum base rate of pension and the pension supplement minimum amount after 20 March 2012, the indexation factor is to be reduced by the **brought forward indexation amount**, but that the indexation factor is not to fall below 1.

Note 1 at the end of subsection 1206GP confirms that the PS minimum rate is the amount as increased under subsection 1206GO(2).

A second note is inserted at the end of the new subsection 1206GP(1) to state that, once the brought forward indexation amount equals zero, there is no further reduction of the indexation factor that would ordinarily apply by virtue of section 1193 of the Social Security Act.

An example is also inserted at the end of the new subsection 1206GP(1) to provide the reader with a clear picture of how the adjustment of the indexation provisions will apply.

New subsection 1206GP(2) provides that where there is an adjustment to indexation in accordance with subsection 1206GP(1) then the rate used to work out a person's pension supplement amount is to be reduced by the same dollar value as the reduction in the person's minimum pension supplement amount.

A method statement is inserted in subsection 1206GP(2) that sets out how the reduction to the pension supplement is to be determined.

Step 1 is to work out the minimum pension supplement amount for the individual after application of the adjusted indexation in accordance with subsection 1206GP(1)..

Step 2 is to work out what would have been the person's minimum pension supplement amount for that day if the adjustment to indexation in subsection 1206GP(1) had not occurred.

Step 3 is to subtract step 1 from step 2.

Step 4 is to subtract the result of step 3 from what would have been, apart from this subsection, the person's pension supplement amount.

Step 5 is to round the result of step 4 to the nearest multiple of \$2.60, rounding up if the result of step 4 is not a multiple of \$2.60, but is a multiple of \$1.30.

Note 1 states that the amount in step 1 is the amount worked out from the pension supplement minimum amount as adjusted under subsection 1206GP(1).

Note 2 provides that the amount in step 2 is the amount as increased under subsection 1206GO(2) and as indexed under subsection 1192, but without the adjustment of indexation as provided for in subsection 1206GP(1).

Note 3 states that for step 4 the amount is as increased under subsection 1206GO(2) and as indexed under subsection 1192.

By virtue of section 1197 of the Social Security Act, payment rates will be indexed in accordance with PBLCI, by the application of an 'indexation factor'. The indexation factor is applied on 20 March and 20 September each year.

New subsection 1206GP(3) states that, for the indexation factors that apply after 20 March 2012, the indexation factor is to be reduced by the **brought forward indexation amount**, but that the indexation factor is not to fall below 1.

A note is inserted at the end of the new subsection 1206GP(3) to state that, once the brought forward indexation amount equals zero, there is no further reduction of the indexation factor that would ordinarily apply by virtue of section 1197 of the Social Security Act.

An example is also inserted at the end of the new subsection 1206GP(3) to provide the reader with a clear picture of how the adjustment of the indexation provisions will apply.

New subsection 1206GP(4) creates a definition of CPI brought forward indexation amount for the purposes of this section. The CPI brought forward indexation amount is 0.004 less any reduction made under this section for a previous indexation day.

New subsection 1206GP(4) also creates a definition of PBLCI brought forward indexation amount for the purposes of this section. The PBLCI brought forward indexation amount is 0.004 less any reduction made under this section for a previous indexation day.

Subdivision E – increases to pensions relating to 1 July 2012

New section 1206GQ sets out when subdivision D of Division 8 will apply to a person's rate of payment. Section 1206GN states that the increases in payments, and adjustment of indexation, provided for in this subdivision will apply where;

- (a) a pension supplement amount is used to work out the rate of that person's pension under rate calculator A, B or C or Pension PP (Single) Rate Calculator; and
- (b) a person receives a rate of pension supplement that is greater than the basic amount of pension supplement.

New paragraph 1206GR(1)(a) provides that on 1 July 2012 the rate of pension supplement, for a person receiving more than the basic amount of pension supplement will increase by the 'CPRS amount' which is defined in subsection 1206GR(3).

New paragraph 1206GR(1)(b) provides that where the increase provided for in subsection 1206GR(1) produces an amount that is not a multiple of \$2.60 then the amount will be rounded to the nearest multiple of \$2.60. Where the result is not a multiple of \$2.60 but is a multiple of \$1.30 the amount is to be rounded up to the nearest multiple of \$2.60.

New paragraph 1206GR(2)(a) provides that on 1 July 2012 a person's rate of minimum amount of pension supplement will increase by the 'CPRS amount' which is defined in subsection 1206GR(3)

New paragraph 1206GR(2)(b), provides that where the increase provided for in subsection 1206GR(2) produces an amount that is not a multiple of \$2.60 then the amount will be rounded to the nearest multiple of \$2.60. Where the result is not a multiple of \$2.60 but is a multiple of \$1.30 the amount is to be rounded up to the nearest multiple of \$2.60.

Paragraph 1206GR(3)(a) provides that the 'CPRS amount' for a person who receives a social security pension calculated under Pension Rate Calculator A is the sum of:

- (a) 1.8 per cent of the person's maximum basic rate of payment; and
- (b) 1.8 per cent of the person's basic amount of pension supplement.

Paragraph 1206GR(3)(b) provides that for all other pension recipients paragraph 1206GR(3)(a) is worked out for them as if they were receiving a payment under Pension Rate Calculator A. For example, a person receiving widow B pension will have a CPRS amount that is the sum of

- (a) 1.8 percent of the maximum basic rate for a person who receives a rate of payment under pension rate calculator A; and
- (b) 1.8 per cent of the person's basic amount of pension supplement.

A note is inserted at the end of section 1206GR to advise the reader that the 1.8 per cent increase includes the estimated cost of living increase of 0.8 per cent for the 2012-13 financial year that has been brought forward and that future indexation will be adjusted to avoid duplication of this brought forward amount.

New section 1206GS provides for special rules around indexation of some amounts on or after 20 March 2013.

By virtue of section 1193 of the Social Security Act, payment rates are indexed in accordance with CPI, as per the table in section 1191, by the application of an 'indexation factor'. The indexation factor is applied on 20 March and 20 September each year.

New subsection 1206GS(1) states that, for the indexation factors that apply to a person's maximum base rate of pension and the pension supplement minimum amount after 20 March 2013, the indexation factor is to be reduced by the **brought forward indexation amount**, but that the indexation factor is not to fall below 1.

Note 1 at the end of subsection 1206GS confirms that the PS minimum rate is the amount as increased under subsection 1206GR(2).

A second note is inserted at the end of the new subsection 1206GS(1) to state that, once the brought forward indexation amount equals zero, there is no further reduction of the indexation factor that would ordinarily apply by virtue of section 1193 of the Social Security Act.

An example is also inserted at the end of the new subsection 1206GS(1) to provide the reader with a clear picture of how the adjustment of the indexation provisions will apply.

New subsection 1206GS(2) provides that where there is an adjustment to indexation in accordance with subsection 1206GS(1) then the rate used to work out a person's pension supplement amount is to be reduced by the same dollar value as the reduction in the person's minimum pension supplement amount.

A method statement is inserted in subsection 1206GS(2) that sets out how the reduction to the pension supplement is to be determined.

Step 1 is to work out the minimum pension supplement amount for the individual after application of the adjusted indexation in accordance with subsection 1206GS(1).

Step 2 is to work out what would have been the person's minimum pension supplement amount for that day if the adjustment to indexation in subsection 1206GS(1) had not occurred.

Step 3 is to subtract step 1 from step 2.

Step 4 is to subtract the result of step 3 from what would have been, apart from this subsection, the person's pension supplement amount.

Step 5 is to round the result of step 4 to the nearest multiple of \$2.60, rounding up if the result of step 4 is not a multiple of \$2.60, but is a multiple of \$1.30.

Note 1 states that the amount in step 1 is the amount worked out from the pension supplement minimum amount as adjusted under subsection 1206GS(1).

Note 2 provides that the amount in step 2 is the amount as increased under subsection 1206GR(2) and as indexed under subsection 1192, but without the adjustment of indexation as provided for in subsection 1206GS(1).

Note 3 states that for step 4 the amount is as increased under subsection 1206GR(2) and as indexed under subsection 1192.

By virtue of section 1197 of the Social Security Act, payment rates will be indexed in accordance with PBLCI, by the application of an 'indexation factor'. The indexation factor is applied on 20 March and 20 September each year.

New subsection 1206GS(3) states that, for the indexation factors that apply after 20 March 2013, the indexation factor is to be reduced by the **brought forward indexation amount**, but that the indexation factor is not to fall below 1.

A note is inserted at the end of the new subsection 1206GS(3) to state that, once the brought forward indexation amount equals zero, there is no further reduction of the indexation factor that would ordinarily apply by virtue of section 1197 of the Social Security Act.

An example is also inserted at the end of the new subsection 1206GS(3) to provide the reader with a clear picture of how the adjustment of the indexation provisions will apply.

New subsection 1206GS(4) creates a definition of CPI brought forward indexation amount for the purposes of this section. The CPI brought forward indexation amount is 0.008 less any reduction made under this section for a previous indexation day.

New subsection 1206GS(4) also creates a definition of PBLCI brought forward indexation amount for the purposes of this section. The PBLCI brought forward indexation amount is 0.008 less any reduction made under this section for a previous indexation day.

Subdivision F – increases to pension PP (single) for Australian residents who have not reached pension age and are in Australia

New subsection 1206GT(1) provides that section 1206GT will apply to individuals if on 1 July 2011:

- (a) They receive pension supplement as part of their rate of pension PP (single); and
- (b) The pension supplement amount they receive is the basic amount of pension supplement; and
- (c) They are an Australian resident who is in Australia or temporarily absent for a period of 13 weeks or less.

New paragraph 1206GT(2)(a) provides that on 1 July 2011 the rate of pension supplement basic amount will increase by the 'CPRS amount' which is defined in subsection 1206GT(4).

New paragraph 1206GT(2)(b) provides that where the increase provided for in subsection 1206GT(2) produces an amount that is not a multiple of \$2.60 then the amount will be rounded to the nearest multiple of \$2.60. Where the result is not a multiple of \$2.60 but is a multiple of \$1.30 the amount is to be rounded up to the nearest multiple of \$2.60.

By virtue of section 1193 payment rates are indexed in accordance with CPI, as per the table in section 1191, by application of an indexation factor. The indexation factor is applied on 20 March and 20 September each year.

New subsection 1206GT(3) states that, for the indexation factors that apply after 20 March 2012, the indexation factor is to be reduced by the **brought forward indexation amount**, but that the indexation factor is not to fall below 1.

A note is inserted at the end of the new subsection 1206GT(3) to state that, once the brought forward indexation amount equals zero, there is no further reduction of the indexation factor that would ordinarily apply by virtue of section 1193.

An example is also inserted at the end of the new subsection 1206GT(3) to provide the reader with a clear picture of how the adjustment of the indexation provisions will apply.

New subsection 1206GT(4) creates a definition of 'CPI brought forward indexation amount' for the purposes of this section. The CPI brought forward indexation amount is 0.004 less any reduction made under this section for a previous indexation day.

Subsection 1206GT(4) also creates a definition of 'CPRS amount' for a person who receives a pension PP (single) is calculated as if the person were receiving a social security pension under Pension Rate Calculator A and is the sum of:

- (a) 1 per cent of the person's maximum basic rate of payment; and
- (b) 1 per cent of the person's basic amount of pension supplement.

A note is inserted at the end of the new subsection 1206GT(4) to state that, once the brought forward indexation amount equals zero, there is no further reduction of the indexation factor that would ordinarily apply by virtue of section 1193 of the Social Security Act.

An example is also inserted at the end of the new subsection 1206GT(4) to provide the reader with a clear picture of how the adjustment of the indexation provisions will apply.

New subsection 1206GU(1) provides that section 1206GU will apply to individuals if on 1 July 2012;

- (a) They receive pension supplement as part of their rate of pension PP (single);and
- (b) The pension supplement amount they receive is the basic amount of pension supplement; and

- (c) They are an Australian resident who is in Australia or temporarily absent for a period of 13 weeks or less.

New paragraph 1206GU(2)(a) provides that on 1 July 2012 the rate of pension supplement basic amount will increase by the 'CPRS amount' which is defined in subsection 1206GU(4).

New subsection 1206GU(2)(b) provides that where the increase provided for in subsection 1206GU(2) produces an amount that is not a multiple of \$2.60 then the amount will be rounded to the nearest multiple of \$2.60. Where the result is not a multiple of \$2.60 but is a multiple of \$1.30 the amount is to be rounded up to the nearest multiple of \$2.60.

By virtue of section 1193 of the Social Security Act, payment rates are indexed in accordance with CPI, as per the table in section 1191, by the application of an 'indexation factor'. The indexation factor is applied on 20 March and 20 September each year.

New subsection 1206GU(3) states that, for the indexation factors that apply after 20 March 2013, the indexation factor is to be reduced by the **brought forward indexation amount**, but that the indexation factor is not to fall below 1.

A note is inserted at the end of the new subsection 1206GU(3) to state that, once the brought forward indexation amount equals zero, there is no further reduction of the indexation factor that would ordinarily apply by virtue of section 1193 of the Social Security Act.

An example is also inserted at the end of the new subsection 1206GU(3) to provide the reader with a clear picture of how the adjustment of the indexation provisions will apply.

New subsection 1206GU(4) creates a definition of 'CPI brought forward indexation amount' for the purposes of this section. The CPI brought forward indexation amount is 0.008 less any reduction made under this section for a previous indexation day.

Subsection 1206GU(4) also creates a definition of 'CPRS amount' for a person who receives a pension PP (single) is calculated as if the person were receiving a social security pension under Pension Rate Calculator A and is the sum of:

- (c) 1.8 per cent of the person's maximum basic rate of payment; and
- (d) 1.8 per cent of the person's basic amount of pension supplement.

Item 7 inserts a new clause 149A after clause 149 in Schedule 1A of the Social Security Act.

New subclause 149A(1) provides that new clause 149 will apply to an individual if;

- (a) clause 146 in Schedule 1A of the Social Security Act affects the rate at which a person is paid a social security pension; and
- (b) subclause 147(1) or (2) is relevant to the person.

That is, clause 149A will apply to people who receive a 'transitional' rate and who are resident in Australia and in Australia or temporarily absent from Australia.

Subclause 149A(2) sets out the purpose of the clause, which is to provide for increases to a person's rate of social security pension to account for the cost of living increases that are expected to arise as a result of the Carbon Pollution Reduction Scheme. This purpose is achieved by providing for increases in the amount of pension payable to an individual and for adjustment to future indexation of payments to prevent possible duplication of indexation.

Paragraph 149A(3)(a) provides that on 1 July 2011 the rate of pension payable to a person by virtue of subparagraph 146(4)(a)(i) will increase by the 'CPRS amount' as defined in subsection 1206GO(3).

Paragraph 149A(3)(b) provides that if the amount calculated in accordance with paragraph 149A(3)(a) does not result in a multiple of \$2.60, then the amount is rounded to the nearest multiple of \$2.60. If the amount calculated is not a multiple of \$2.60 but is a multiple of \$1.30 then the amount is rounded up to the nearest multiple of \$2.60.

The 'CPRS amount' is defined in subsection 1206GO(3) as being the sum of:

- (a) 1 per cent of the maximum basic rate of payment for someone who is receiving a payment calculated in accordance with Pension Rate Calculator A; and
- (b) 1 per cent of the basic amount of pension supplement for that person as defined in subsection 20A(5).

Paragraph 149A(4)(a) provides that on 1 July 2012 the rate of pension payable to a person by virtue of subparagraph 146(4)(a)(i) will increase by the 'CPRS amount' as defined in subsection 1206GR(3).

Paragraph 149A(4)(b) provides that if the amount calculated in accordance with paragraph 149A(4)(a) does not result in a multiple of \$2.60, then the amount is rounded to the nearest multiple of \$2.60. If the amount calculated is not a multiple of \$2.60 but is a multiple of \$1.30 then the amount is rounded up to the nearest multiple of \$2.60.

The 'CPRS amount' is defined in subsection 1206GR(3) as being the sum of:

- (c) 1.8 per cent of the maximum basic rate of payment for someone who is receiving a payment calculated in accordance with Pension Rate Calculator A; and

- (d) 1.8 per cent of the basic amount of pension supplement for that person as defined in subsection 20A(5).

The increases provided for in subclause 149A(3) and subclause 149A(4) include estimated cost of living increases of 0.4 per cent and 0.8 per cent respectively which have been brought forward.

Subclause 149A(5) provides that where a person's payment rate would ordinarily be increased in line with CPI those increases will be adjusted commencing on 20 March 2012 to avoid duplication of indexation.

Subclause 149A(6) provides that the following provisions are not to be taken into account in determining a person's rate of pension under clause 146 or the application of the income and assets test to a person's rate of pension as applied by clause 149;

- (a) Subsection 1206GO(1);
- (b) Paragraphs 1206GP(1)(a) ;
- (c) Subsection 1206GP(3);
- (d) Subsection 1206GR(1);
- (e) Paragraphs 1206GS(1)(a);
- (f) Subsection 1206GS(3).

Schedule 6 – Income tests

Summary

This Schedule will increase the income test taper rate from 40 cents to 50 cents per dollar of income over the ordinary income free area and remove the additional income test free area for dependent children from the calculation of the amount of a person's ordinary income free area.

Background

As part of the Government's Secure and Sustainable Pension Reforms package, the income test for pensions will be tightened from 20 September 2009, to ensure the pension system is sustainable in the longer term, and that increases can be targeted to those most in need. Transitional arrangements will apply for existing pensioners affected by the new income test changes to ensure current payment rates are maintained in real terms, and that those pensioners also benefit from a pension increase.

Under the Social Security Act, for the purpose of calculating a person's annual rate of social security pension, 'ordinary income' is assessed under the income test.

In order to work out the effect of a person's ordinary income on the person's maximum pension rate, the person's annual amount of ordinary income is calculated to determine whether the maximum rate of pension is payable to the person. If a person's ordinary income exceeds the ordinary income free area (that is, the amount of ordinary income that a person can have without any deductions being made from the person's maximum rate of pension), the person's pension is reduced by a specified amount for each dollar of income over the free area. This is known as the income test taper rate. Currently, the specified amount of the taper rate is 40 cents for each dollar of income over the free area. As part of the measures relating to the changes to the income test, the income test taper rate will increase to 50 cents for each dollar of income over the free area. In other words, a person's pension will be reduced by 50 cents for each dollar of ordinary income over the income test free area.

In order to bring the pension into line with other social security payments, including allowances and family assistance, the additional income test free area for dependent children will also be removed. Currently, the amount of a person's ordinary income free area comprises a basic free area (based on whether the person is single or partnered) and an additional specified amount for each dependent child of the person. The changes to the income test will mean that the additional income test threshold (free area) for each dependent child of the person will no longer form part of the calculation of a person's ordinary income free area.

The provisions contained in this Schedule apply only to recipients of social security age pension, disability support pension, wife pension, carer payment, widow B pension and bereavement allowance. They do not apply to recipients of parenting payment (single).

The amendments made by this Schedule commence on 20 September 2009.

Explanation of the changes

Part 1 – Taper rate

Amendments of the Social Security Act

This part of Schedule 4 contains amendments to increase the taper rate for each dollar of income over the ordinary income free area, thereby reducing a person's pension if the person's ordinary income exceeds the ordinary income free area.

Items 1 and 2 repeal the current figure of '0.4' in the formula and substitute a new figure of '0.5', which will have the effect of reducing the amount of a person's maximum rate of payment by 50 cents for each dollar of income over the ordinary income free area.

Item 3 repeals point 1066A-F9 and replaces it with a new point, which brings the formula for working out a person's income test taper into line with the other formulas in this Schedule.

Part 2 – Income free area

Amendments of the Social Security Act

This part of Schedule 4 contains amendments to the income test threshold (free area), which removes the additional amount for each dependent child that is added to a person's basic free area.

Items 4 to 19 make technical amendments to the rate calculators in sections 1064, 1066 and 1066A to give effect to the removal of the additional amount for each dependent child for a person's ordinary income free area.

Part 3 – Application of amendments

This part of Schedule 4 contains the application provisions for the amendments to the Social Security Act.

Amendments of the Social Security Act

Item 20 provides that, for the purposes of working out the rates of social security payments for days on or after 20 September 2009, the amendments made to the Social Security Act by this Schedule apply.

The note signposts the fact that, after applying the amendments made by Schedule 4, different rates for some social security payments may be worked out under the transitional arrangements in Schedule 1A to the Social Security Act.

Schedule 7 – Work bonus

Summary

This Schedule introduces a new Work Bonus into the social security law, which allows for a certain amount of employment income that is earned, derived or received in an instalment period by a person, who is of age pension age and is in receipt of a rate of social security pension determined under Pension Rate Calculator A, B or C, to be disregarded for the purposes of the ordinary income test. For cases where an instalment period is fourteen days, the amount that is to be disregarded is 50 per cent of \$500 where the person earns more than \$500 in the instalment period, or 50 per cent of the person's total employment income for a period, where the person earns less than \$500 in the instalment period. A proportional rule will apply to instalment periods of less than 14 days. The Work Bonus will enable pensioners over age pension age to keep more of the money they earn through work. This is a mechanism to support those pensioners of age pension age who wish to undertake some paid work to supplement their pension. It recognises that continuing employment can be important because of both the financial and non-financial benefits for individual pensioners, and for the contribution that their participation in the workforce can make to the community.

Background

'Ordinary income' (a term defined in subsection 8(1) of the Social Security Act) can reduce a person's maximum payment rate of pension because of the operation of the ordinary income tests in Pension Rate Calculators A and C. A number of provisions in the social security law affect the meaning of 'ordinary income', with the result that some amounts that would otherwise be considered as 'ordinary income' can be excluded from the application of the income test or otherwise treated in a special way. Some of these provisions are sections 1072 (general meaning of ordinary income), 1074 and 1075 (business income), sections 1076 to 1084A (deemed income from financial assets) and provisions in Division 1C of Part 3.10 (income from income streams). The term 'employment income' is defined at subsection 8(1A) of the Social Security Act and is affected by subsections 8(1B) and (1C).

The amendments made by this Schedule commence on 20 September 2009.

Explanation of the changes

Amendments of the Social Security Act

Items 1 and 2 add notes to the method statements for the ordinary income tests in Pension Rate Calculators A and C to signpost that the application of the ordinary income test in those calculators will now be affected by new section 1073AA.

Item 3 amends the note in section 1072, which deals with the general meaning of ordinary income, to signpost that new section 1073AA is a provision which can affect the amount of a person's ordinary income.

Item 4 inserts a new Division 1AAA in Part 3.10 of the Social Security Act, which provides for the Work Bonus. Section 1073AA is the only section of the new Division. The purpose of new paragraph 1073AA(1)(a) is to specify which payments section 1073AA applies to. The effect of referring to rates determined under Pension Rate Calculators A and C is that the provision applies to people in receipt of the following pensions: age pension; disability support pension; wife pension; carer payment; bereavement allowance; widow B pension and special needs pension. For blind people whose rates are determined under Pension Rate Calculator B, there is no need to refer to that rate calculator as the ordinary income test applied by Pension Rate Calculator B is in Pension Rate Calculator A. Therefore, a person whose rate is calculated in accordance with Pension Rate Calculator B is a person whose social security pension is calculated 'in accordance' with Pension Rate Calculator A.

Paragraph 1073AA(1)(b) means that section 1073AA can only apply to a person who is of age pension age, as defined in subsections 23(5A), (5B), (5C) and (5D) of the Social Security Act (as signposted in a note).

Subsections 1073AA(2) and (3) provide rules for working out how much employment income can be disregarded by the ordinary income tests in Pension Rate Calculators A and C.

Subsection (2) applies to circumstances where a person's employment income for an instalment period is greater than or equal to the 'income concession amount'. In those circumstances, employment income for that period, equivalent to 50 per cent of the income concession amount, is not ordinary income for the purposes of the ordinary income test in the relevant rate calculator.

Subsection (3) applies to circumstances where a person's employment income for an instalment period is less than the Work Bonus amount. In those circumstances, 50 per cent of the employment income for that period is not ordinary income for the purposes of the ordinary income test in the relevant rate calculator.

Subsection 1073AA(4) defines the 'income concession amount' for the purposes of section 1073AA. If an instalment period, as determined by the Secretary under section 43 of the Social Security Administration Act, is 14 days (which is a common length of an instalment period), the income concession amount is \$500. This means that, as a result of the application of section 1073AA for instalment periods where the income concession amount is \$500, up to \$250 of employment income can be disregarded as 'ordinary income'.

If an instalment period is less than 14 days, paragraph 1073AA(4)(b) provides a formula which has the purpose of lowering the income concession amount proportionately, to ensure that ratio of the income concession amount to the length of the instalment period remains fixed.

Example

Ralph's claim for age pension is granted and his first instalment period is determined to be 10 days. Ralph earns \$500 of employment income for that 10 day period. The income concession amount is calculated as $\$500 \times 10/14 = \357.14 . The result is that \$178.57 of Ralph's employment income for that period is disregarded for the purposes of the ordinary income test.

The purpose of subsection 1073AA(5) is to put beyond doubt the relationship between new section 1073AA and section 1073A. If an amount is taken to have been earned, derived or received by a person over an instalment period as a result of a determination made under section 1073A of the Social Security Act, the person's employment income for that instalment period, for the purposes of applying section 1073AA, includes that amount.

The purpose of subsection 1073AA(6) is to clarify how section 1073AA relates to points 1064-E2 and 1066-E2 of the Social Security Act. For members of the same couple, it is intended that the provisions in 1073AA(1) to (5) are applied to each individually to reduce the total amount of 'ordinary income' that is taken into account for the relevant ordinary income test. The reduced 'ordinary income' amounts for each member of the couple are then added together under point 1064-E2 or 1066-E2 and divided by two to determine each member's total ordinary income that is to be subject to the income test.

The following two examples are based on the examples provided underneath subsection 1073AA(6):

Example 1

David and Amy are members of a couple and are both in receipt of age pension. In a 14 day instalment period, David earns \$50 and Amy earns \$500 of employment income. For David, \$25 is disregarded and, for Amy, \$250 is disregarded. Assuming that neither member of the couple has any other income for that period, the total amount of ordinary income that is taken into account for each of them for that period, after applying the rule in point 1064-E2 of the Social Security Act, is \$137.50.

Example 2

Ian and Simone are members of a couple and are both in receipt of age pension. In a 14 day instalment period, Ian earns no employment income and Simone earns \$1,000 of employment income. For Ian, no income is disregarded and, for Simone, \$250 is disregarded. Assuming that neither member of the couple has any other income for that period, the total amount of ordinary income that is taken into account for each of them for that period, after applying the rule in point 1064-E2 of the Social Security Act is \$375.

Item 5 is an application provision, which clarifies that section 1073AA applies to instalment periods that begin before 20 September 2009 (the commencement date of the measure) and end after 20 September 2009. If an instalment period begins and ends after this date, section 1073AA applies to the entire instalment period.

Example

Teresa is granted age pension on 17 September 2009. From 17 September 2009 to 19 September 2009, the first three days of the first instalment period, she earns \$500 of employment income, but, from 20 September 2009 to 30 September 2009, the end of that instalment period, she earns no further employment income. The employment income that will be disregarded for Teresa's first instalment period of age pension is \$250 because section 1073AA applies to all of that instalment period, even though part of the period was prior to the commencement of the Schedule.

Schedule 8 – Employment income attribution for persons of pension age

Summary

This measure provides for the assessment of employment income for people in receipt of social security pensions and who are of age pension age on the same basis as people who are under age pension age. It will allow for assessment of employment income for an instalment period of a person to enable the operation of the Work Bonus.

Background

Under this measure, the earnings of an age pensioner of age pension age will generally be assessed on a fortnightly basis, as is already done for pensioners under age pension age. This will ensure more consistency of assessment of earnings for pensioners, and make the income test treatment of earnings easier for pensioners to understand. It will make it easier to determine an appropriate rate of yearly income where earnings are irregular.

Currently, case law provides that ordinary income for pensioners may be spread over appropriate periods to reach a reasonable representation of the person's yearly income for the purposes of their pension rate calculation.

Division 1AA of Part 3.10 of the Social Security Act contains rules specific to employment income for people who have not yet reached age pension age. Section 1073A allows the Secretary to determine a period, not exceeding 52 weeks, over which a lump sum in respect of a period greater than a fortnight or in respect of no particular period is to be taken to have been earned, derived or received for the purposes of the income test. Section 1073B provides that employment income taken to be earned derived or received during the whole or part of an instalment period is to be spread evenly over each day in that instalment period.

Section 1073C provides for the result of employment income spread evenly over the instalment period by new section 1073B to be expressed on a fortnightly or yearly basis, as applicable.

The amendments made by this Schedule commence on 20 September 2009.

Explanation of the changes

Amendments of the Social Security Act

The purpose of **items 1 to 2** is to allow for the rule in section 1073A to apply in relation to people of age pension age in receipt of a social security pension.

The purpose of **items 3 to 5** is to allow for the rule in section 1073B to apply in relation to people of age pension age who are in receipt of a social security pension.

No amendments are required to section 1070C because that section applies to any person that section 1070B applies to.

Item 6 is an application provision, which provides that the amendments made by this Schedule apply in relation to employment income that is earned, derived or received, or is taken to have been earned, derived or received, on or after the commencement of this item, which will be 20 September 2009.

Schedule 9 – Pension bonus scheme

Summary

Under this Schedule, the pension bonus scheme, which provides a tax-free lump sum payment to older Australians who defer claiming age pension, service pension or income support supplement and choose to remain in the workforce, will be closed to new entrants from 20 September 2009. The scheme will, however, continue to be available to existing members.

Background

The pension bonus scheme was introduced on 1 July 1998. It provides an incentive for older Australians to defer claiming age pension, age or partner service pension or income support supplement and instead remain in the workforce. The scheme pays a tax-free lump sum to members when they eventually claim and receive age pension, age or partner service pension or income support supplement.

The Pension Review (undertaken by Dr Jeff Harmer) found that the scheme is complex and not meeting its objective of encouraging workforce participation.

The amendments made by this Schedule commence on the day on which they receive Royal Assent.

Explanation of the changes

Amendments of the Social Security Act

Item 1 inserts new subsection 92J(1A) and (1B) after current subsection 92J(1). Current subsection 92J(1) provides that if a person applies for registration as a member of the pension bonus scheme, the Secretary must register the applicant as a member of the pension bonus scheme. New subsection 92J(1A) provides that despite the rule in subsection 92J(1), the Secretary must not register a person as a member of the pension bonus scheme if the person's date of qualification for the age pension occurs on or after 20 September 2009. (Qualification for the age pension is provided for in section 43. It includes the requirement that a person has reached the age pension age, which is provided for in subsections 23(5A) to (5D).)

New subsection 92J(1B) provides that, for the purposes of subsection 92J(1A), subsections 92H(8) and (9) apply in a way corresponding to the way in which they apply for the purposes of section 92H. Current subsection 92H(8) provides that, for the purposes of section 92H, a person's date of qualification for the age pension is to be worked out on the assumption that being an Australian resident were an additional qualification for an age pension. Current 92H(9) provides that, if a person would have two or more dates of qualification for the age pension, only the first date is to be counted.

The effect of new subsection 92B(1B) is that the Secretary must not register a person as a member of the pension bonus scheme if the person becomes an Australian resident on or after 20 September 2009.

The following examples illustrate when the Secretary must not register a person as a member of the pension bonus scheme, as a result of new subsections 92J(1A) and (1B):

- Example 1 – pension age

Ms A turns age pension age on 5 October 2009 and attends an appointment with a Centrelink Financial Information Service Officer (FISO). Ms A indicates that she is employed and intends to continue working. Ms A enquires about the pension bonus scheme and is told that she is not eligible for the scheme as she turned age pension age after 20 September 2009. Instead, the FISO discusses Ms A's eligibility for a part pension and assistance through the taxation system for mature age workers.

- Example 2 – residency

On 1 January 2011, Mr B applies to register in the pension bonus scheme after finding out about the existence of the scheme. He turned age pension age on 1 May 2009 (that is, before 20 September 2009), has met the work test for the whole period since he originally turned age pension age, and, under normal circumstances, it would be open to the Secretary to backdate his registration. However, Mr B did not become an Australian resident until 1 August 2010. As Mr B did not qualify for age pension until 1 August 2010, (that is, after commencement of the measure on 20 September 2009) he would not be able to register in the scheme.

Item 2 provides that the amendments made by item 1 apply in relation to applications for registration that are made on or after the commencement of that item. The effect is that, for applications made before commencement of this item by people whose qualification date is on or after 20 September 2009, the Secretary cannot refuse registration based on proposed subsection 92J(1A). However, a person cannot apply for registration as a member of the pension bonus scheme any earlier than 13 weeks prior to their date of qualification for the age pension, in accordance with subsection 92H(1).

If a person's date of qualification for the age pension occurs before 20 September 2009, they may still be able to lodge an application as a member of the pension bonus scheme on or after 20 September 2009, in some circumstances. Applications for registration within 13 weeks after the date of qualification for the age pension will continue to be accepted in accordance with subsection 92H(1). The discretion for the Secretary to accept applications lodged after 13 weeks from the date of qualification for the age pension, if the criteria set out in subsection 92H(4) is met, will continue to remain.

Existing members of the pension bonus scheme will continue to accrue entitlements under existing rules.

Schedule 10 – Transitional arrangements

Summary

This Schedule contains a range of saving and transitional provisions to allow pensioners, who will be affected by changes to the social security law made by this bill on the date of commencement, to transition smoothly to the new arrangements.

Firstly, this measure provides for how a pension bonus will be calculated, after 20 September 2009, for a person whose age pension start day predates 20 September 2009. Secondly, it addresses how the new income test taper rate will affect disability support pensioners who are under 21, have no dependent children and who are in receipt of disability support pension immediately before 20 September 2009. Thirdly, this measure ensures that the current entitlements of existing pensioners who would otherwise be affected by the income test changes, and whose pension would be reduced, will be maintained in real terms.

Further, this measure provides a rule for couples, where at least one member is subject to transitional arrangements, that specifies how the ordinary income test will apply to a person to determine the rate payable to their partner.

Background

Most existing pensioners, including all maximum rate pensioners, will immediately have higher rates of pension under the measures included in this bill. However, because of the changes that are being made by this bill to the ordinary income tests in Pension Rate Calculators A and C in order to better target pensions to those most in need, transitional arrangements are required to ensure no existing pensioner will be worse off.

Existing part-rate pensioners will transition to the new arrangements at the point the new arrangements provide a higher rate of pension.

Pensioners who are in Australia, or are temporarily absent from Australia, and whose rate of pension is determined by the transitional arrangements, will also receive an increase in their maximum payment rate of \$10.10 per week (as a person in receipt of a single rate or as a member of a combined couple).

As a consequence of the increases in payments provided in amendments in this bill, it is necessary to provide for a transitional rule to determine how a pension bonus is to be calculated in instances where a person claims a pension bonus after 20 September 2009 and their start day for age pension is before that date.

The amendments made by this Schedule commence on 20 September 2009.

Explanation of the changes

Amendments of the Social Security Act

Item 1 in Part 1 adds a number of saving and transitional provisions at the end of Schedule 1A of the Social Security Act.

New subclause 144(1) ensures that, for pension bonus claims made after 20 September 2009, if the claimant's start date for age pension is before 20 September 2009, their rate of pension bonus will be calculated under section 93H of the Social Security Act as it existed prior to that date. People whose age pension start day is after 20 September 2009 will not be affected by the transitional arrangements and their pension bonus will be calculated in accordance with section 93H as amended by Schedule 1 to this bill. An example of how this provision could apply is below:

Example 1

Gisela has been a member of the pension bonus scheme since she registered in the scheme on 21 August 2006. When Gisela stops working on 20 August 2009, her last bonus period is a full year period that ends on that date. She contacts Centrelink on 15 September 2009 about making a claim for age pension and pension bonus but does not lodge a claim on that date. Centrelink give Gisela a notice, acknowledging that contact was made. On 25 September 2009, she lodges her claim for age pension and pension bonus. The 'start day' for her age pension will be the date of the contact on 15 September 2009 as a result of section 13 of the Social Security Administration Act. In this case, the amount of Gisela's pension bonus will be worked out under section 93H as it existed immediately before 20 September 2009.

Subclause 144(2) relates to the amendments made to section 93H of the Social Security Act by Schedule 1 to this bill. That Schedule provides for indexation rules in relation to amounts that are equivalent to the maximum amount of pension supplement payable to a person before the changes made by this bill. These amounts will be a component of a person's 'annual pension rate' in accordance with new subsections 93H(2) and (3) of the Social Security Act. Subclause 144(2) provides that those amounts are subject to indexation on 20 September 2009 and later indexation days. This means that, from 20 September 2009, and including that day, those amounts will be indexed to the CPI on 20 March and 20 September of each year under Part 3.16 of the Social Security Act.

New **clause 145** is a saving provision, which provides that the pre-20 September 2009 reduction for ordinary income rules (commonly known as the income test taper rate), at point 1066A-F9 of the Social Security Act, continue to apply to working out a person's rate of disability support pension under Pension Rate Calculator D if, immediately before commencement of the income test taper measure in Schedule 6, the person was receiving disability support pension, as worked out under that rate calculator, and their rate was worked out taking account of an ordinary income excess under point 1066A-F10 that was greater than nil. The effect of this provision is that no existing pensioners at 19 September 2009 whose rate of social security pension is calculated under Pension Rate Calculator D after 20 September 2009 will undergo a rate reduction because of the changes being made to the income test taper.

As a result of amendments made by this bill in Schedule 1, the only people who will continue to have their rate calculated under Pension Rate Calculator D after 20 September 2009 will be people in receipt of disability support pension who are under 21 without a dependent child or children. This means that this rule will only apply to these people.

The purpose of the condition in paragraph 145(1)(b) is to ensure that only people whose provisional annual payment rate for the purposes of step 12 of the method statement at point 1066A-A1 of the Social Security Act is the same as the person's income reduced rate (see step 9 of that method statement) are affected by clause 145 (these people will have an ordinary income excess under point 1066A-F10 that is more than nil). This means that, if a person's rate is not reduced because of their income (either because they have no ordinary income excess under point 1066A-F10 or because their provisional annual payment rate is the same as their assets reduced rate), this savings provision will not apply to them.

Subclause 145(2) is intended to ensure that this savings provision can only continue to apply to a person as long as the person's rate of disability support pension continues to be calculated under Pension Rate Calculator D (because the person is in receipt of disability support pension and is under 21 without a dependent child or children) and is reduced because of their ordinary income. It provides that subclause 145(1) ceases to apply or can never apply again in one of the following circumstances: (a) their income reduced rate is the same as their maximum payment rate (in these circumstances, the person's ordinary income excess will be nil or less); (b) Pension Rate Calculator D ceases to apply to working out their rate of disability support pension (for example, in cases where they have a dependent child or because they turn 21); or (c) where the person ceases to receive disability support pension at all (which would include cases where the person transfers to another social security pension or payment).

New **clause 146** provides for transitional rules that are intended to ensure that no person's pension rate will decrease because of the changes being made to the ordinary income tests by various measures in this bill.

Subclause 146(1) is an application provision which specifies that clause 146 applies to people in receipt of one of the following social security pensions on 19 September 2009 (which is the day before the ordinary income test amendments made by this bill commence):

- (i) age pension;
- (ii) disability support pension;
- (iii) wife pension;
- (iv) carer payment;
- (v) bereavement allowance;
- (vi) widow B pension;
- (vii) special needs pension

The reason that all disability support pensioners have been specified, and not just disability support pensioners to whom clause 145 does not apply, is that it is intended that this clause is to apply to disability support pensioners who are, on a day before 19 September 2009, under 21 and without children but subsequently, on a day after 20 September 2009, have their rate calculated under Pension Rate Calculator A, B or C. This could occur, for example, where the person turns 21, has a dependent child or transfers to another pension.

Paragraph 146(1)(b) means that clause 146 can continue to apply to a person so long as they are continuously receive one of the pensions listed in paragraph 146(1)(a), even if they transfer between a number of those pensions or otherwise stop receiving one and start receiving another without a gap of a day or more between their respective receipt.

Subclause 146(2) provides that clause 146 has effect for working out the rate of a social security pension listed in subclause 146(1) on a 'relevant day' that is after 19 September 2009, if the rate is calculated under one of Pension Rate Calculator A, B or C, or under section 796 of the Social Security Act. All of the pensions listed at subparagraphs 146(1)(a)(i) to (vi) are calculated under Pension Rate Calculators A, B and C (except for disability support pensioners who are under 21 and do not have a dependent child or children). Rates of special needs pension are calculated in accordance with section 796, which is why this section is included in the provision.

Subclause 146(3) sets out a comparison between a rate that would be payable to a person in accordance with the transitional arrangements and the rate that would be payable to that person as if the transitional arrangements had not been enacted. It provides that a person's 'provisional annual payment rate' (for the purposes of the method statements in the relevant rate calculators and section 796 as specified at subclause 146(2)) is taken to be the amount worked out by the transitional arrangements in subclause (4) if the total of:

- (a) $1/364$ of that amount; and
- (b) the amount (if any) of DFISA that would be payable to the person on the relevant day, if their provisional annual payment rate was the amount worked out under subclause 146(4) and if the amendments made in this Bill to the ordinary income test, in Schedules 6 and 7, had not been made;

is greater than the total of:

- (c) $1/364$ of the person's provisional annual payment rate apart from clause 146; and
- (d) the amount (if any) of DFISA that would be payable to the person on the relevant day apart from clause 146.

The effect of subclause (3) is to ensure that, if a person's rate would be higher as worked out in accordance with the pre-20 September 2009 income test rules and, as based on the pre-20 September maximum basic rates (plus an amount of \$10.10 for singles or \$5.05 for members of a couple) their rate can be worked out under subclause 146(4) and not under the rules that would apply apart from the transitional arrangements. The reason why the amounts in paragraphs (a) and (c) are divided by 364 is to allow for the comparison to operate on the basis of a daily rate. Because DFISA is payable at a daily rate, it is necessary to express the paragraph (a) and (c) amounts as daily rates in order to conduct the comparison. DFISA has been included as an element in the comparison to ensure that the comparison is based on the total social security pension rate and rate of DFISA that the person would receive (either at paragraphs (b) or (d)).

The ratio of daily rates to annual rates of social security pensions listed in subclause 146(1) of 1:364 is set by points 1064-A1, 1065-A1 and 1066-A1 of the Social Security Act.

Subclause 146(4) provides for the provisional annual payment for a person to whom clause 146 applies if the conditions in subclause 146(3) are met. It is the rate that would be a person's provisional annual payment rate under the method statement of the applicable rate calculator if: (a) the maximum payment rate for the person were the total of the amount determined by the applicable method statement in either subclause 147(1), (2), (3) or (4) plus rent assistance, if it were assumed that the ordinary income test changes made by Schedules 6 and 7 to this bill had not been made.

The intention of subclause 146(5) is to ensure that, once a person's provisional annual payment for a day is higher by reference to the rate and income test rules which exist apart from the rules inserted into Schedule 1A by this measure, the person's rate cannot be determined again by the rules in Schedule 1A. This is to ensure that a person can only benefit from the transitional arrangements for a continuous period directly following 20 September 2009. Once a person no longer benefits from the transitional arrangements, their rate is to be determined by the rate and income test rules that will apply to people who begin receiving a social security pension described in subclause 146(1) on a day that is after 19 September 2009.

The purpose of subclause 146(6) is to indicate, in the case of doubt, that the operation of Part VIIAB (Defence Force Income Support Allowance and related payments) of the Veterans' Entitlements Act is not affected by clause 146. This means that the amount of a person's DFISA is to be calculated by reference to the Veterans' Entitlements Act (but, where relevant, by taking into account the person's provisional annual payment rate as determined by clause 146 for the purposes of subsection 118NC(4) of the Veterans' Entitlements Act).

Clause 147 lists amounts for the purposes of subparagraph 146(4)(a)(i). These amounts differ depending on the person's relationship status and whether they are residing in Australia and are either in Australia or are temporarily absent from Australia for a continuous period not exceeding 13 weeks.

The amount in **subclause 147(1)** is an amount for a person who: (a) is not a member of a couple, or is otherwise paid at a single rate of pension because they are a member of an illness separated couple, a member of a respite care couple or partnered to a person who is in gaol; (b) is residing in Australia; and (c) either is in Australia or is temporarily absent from Australia for a continuous period not exceeding 13 weeks.

The method statement in subclause 147(1), provides for the calculation of the amount by reference to a number of components as they would have existed if it were assumed that the amendments made by the *Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Act 2009* (should it be enacted) had not been made. The purpose of calculating the amount by reference to components that would have been payable if not for these amendments is to ensure that no existing pensioner will receive a lower amount of pension, telephone allowance and utilities allowance than they would have otherwise received on 20 September 2009 had the social security law not been amended. The effect of step 2 is to add to the amount at least \$525.20 per annum, or \$10.10 a week. This will ensure that people to whom this amount applies and whose rate is determined by the transitional arrangements will receive an increase in their maximum payment rate of at least \$10.10 per week.

The amount in subclause 147(2) is an amount for a person who: (a) is partnered (which means they are a member of a couple, see subsection 4(11) of the Social Security Act), but who is not a member of an illness separated couple or respite care couple and not partnered (partner in gaol) (as defined in subsection 4(11) of the Social Security Act); (b) is residing in Australia; and (c) either is in Australia or is temporarily absent from Australia for a continuous period not exceeding 13 weeks.

The method statement in subclause 147(2) is the same as the method statement for subclause 147(1), except for the fact that it uses the partnered rates of the various components at step 1. The effect of step 2 is to add to the amount at least \$262.60 per annum, or \$5.05 a week. This will ensure that people to whom this amount applies, and whose rate is determined by the transitional arrangements, will receive an increase in their maximum payment rate of at least \$5.05 per week.

The amount in subclause 147(3) is an amount for a person who is not a member of a couple, or is otherwise paid at a single rate of pension because they are a member of an illness separated couple, a member of a respite care couple or partnered to a person who is in gaol but is not otherwise covered by subclause 147(1) (because they are not residing in Australia or because they have been absent from Australia for more than 13 weeks continuously).

The method statement in subclause 147(3) provides that the following amounts are to be added: the amount that would have been the person's maximum basic rate had the amendments made by the *Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Act 2009* (should it be enacted) not been made; and the pension supplement that would be payable to the person had the amendments not been made. The reason why this amount does not included components to reflect utilities allowance and telephone allowance is because these allowances are generally not payable to a person who is overseas and has been for more than 13 weeks.

The amount in subclause 147(4) is an amount for a person who is partnered (which means they are a member of a couple, see subsection 4(11) of the Social Security Act), but who is not a member of an illness separated couple or respite care couple and not partnered (partner in gaol) (as defined in subsection 4(11) of the Social Security Act) and is not otherwise covered by subclause 147(2).

The method statement in subclause 147(4) is the same as the method statement in subclause 147(3) except that it adds together the maximum basic rate and the pension supplement that would have been payable to a person who is partnered.

Clause 148 deals with how to treat the income of members of a couple where at least one member has their rate affected by the operation of clause 146. It provides that, in working out the amount payable to person A (the 'partner') it should be assumed that the social security pension payable to person B (the 'person') is payable at the rate at which it would have been payable as if clause 146 had not been enacted. This means that, before applying the rule at point 1064-E2 or 1066-E2 for a person, it should be assumed that the person's partner's rate was determined by reference to the income test rules that apply apart from the transitional arrangements in Schedule 1A of the Social Security Act. Centrally, this will mean that the benefit of the Work Bonus measure will be able to flow from one member of a couple to the other notwithstanding whether or not a person's rate is determined by the transitional arrangements.

Clause 149 provides for some payment and tax consequences of receiving a rate of pension affected by clause 146. Subclause 149(1) is an application provision that states that clause 149 applies if clause 146 affects the rate at which a social security pension is payable to a person. This means that, if, because of that clause, a person's provisional annual payment rate is replaced under subclause 146(3), clause 149 will apply to that person.

Subclause 149(2) states the purpose of the clause, which is to ensure that the rate of pension for a person to whom the clause applies is treated the same for income tax purposes as if the person's rate had not been affected by clause 146. Centrally, this will mean that an amount equivalent to the maximum basic rate and pension supplement as at 20 March 2009, as indexed to the CPI, will be subject to income tax, whereas the remainder will be exempt.

Subclause 149(3) achieves this purpose by deeming that the social security law applies as if an amount described in subparagraph 146(4)(a)(i) (as affected by any indexation) were an amount of pension supplement. One consequence of this subclause is that the subparagraph 146(4)(a)(i) amount will be deemed to be the full pension supplement in the context of determining the 'tax-exempt pension supplement' as set out in subsection 20A(6) as inserted by Schedule 4 to this bill. As a result, the tax-exempt component of that amount will be worked out by subtracting the pension supplement basic amount (as affected by the deeming rule in subclause 149(4)) from the overall subparagraph 146(4)(a)(i) amount according to subsection 20A(6) as inserted by Schedule 4. Another consequence of this provision will be that all of the rules relevant to a person's minimum pension supplement amount, including the amount and the possibility of an election under section 1061VA (as inserted by Schedule 4 to this bill) will apply for people to whom clause 149 applies.

Subclause 149(4) provides that the amounts in the table in subsection 20A(5), as inserted by Schedule 4 to this bill, are to be replaced by different amounts. This is done to ensure that the definition of 'tax-exempt pension supplement' will apply to ensure that only amounts equivalent to the maximum basic rate and pension supplement as at 20 March 2009, and indexed to the CPI, are taken to be a person's 'pension supplement basic amount' for the purposes of applying subsection 20A(6) for people whose rates are affected by clause 146.

Part 2 provides for a number of related amendments to the Social Security Act.

Items 2 and 3 add notes to the end of points 1064-A1 and 1066-A1 (which contain the method statements relevant to calculating the rate, for a person, of a number of social security pensions) to indicate that clause 146 of Schedule 1A can operate to deem a person's provisional annual payment rate to be an amount that is different to what their provisional annual payment rate would otherwise be.

Items 4 and 5 add an item to the tables at section 1190 and 1191 of the Social Security Act, which refers to the amounts at subparagraph 146(4)(a)(i). The effect of these amendments is that the amounts in subclauses 147(1) to (4) will be indexed to the CPI on 20 March and 20 September of each year from 20 March 2010 onwards.

Schedule 11 – Pension age

Summary

This Schedule increases the qualifying age for age pension for both men and women from 65 to 67 years by six months every two years commencing on 1 July 2017.

Background

One of the requirements to qualify for age pension is that a person must have reached pension age. Currently, the qualifying age for age pension for men is 65 years and, for women, 63.5 years. The women's age pension age is progressively increasing and will align with the men's (that is, 65 years) on 1 July 2013.

This Schedule provides for an increase in the qualifying age for age pension for men and women from 65 to 67 years by six months every two years, starting on 1 July 2017 ending on 1 January 2024. The effect of this Schedule is that this latest increase does not apply to people born before 1 July 1952.

Under the Veterans' Entitlements Act, pension age for people other than veterans is the same as age pension age under the Social Security Act. Amendments to increase the non-veteran pension age for men and women from 65 to 67 years by six months every two years starting on 1 July 2017 and ending on 1 January 2024 will be introduced in a further bill early in the 2009 Spring sittings.

The amendments made by this Schedule commence on the day on which they receive Royal Assent.

Explanation of the changes

Amendments of the Social Security Act

Item 1 repeals subsection 23(5A) and substitutes a new subsection (5A). New subsection 23(5A) provides that a man born during the period specified in column 2 of the Table reaches pension age when he turns the age specified in column 3 of the relevant item. This means that:

A man born during the period:	will turn age pension age at:
On or before 30 June 1952	65 years*
1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	66 years and 6 months
On or after 1 January 1957	67 years

* No increase in age pension age for this group.

Item 2 repeals subsection 23(5D) and substitutes a new subsection (5D). New subsection 23(5D) provides that a woman born during the period specified in column 2 of the Table reaches pension age when she turns the age specified in column 3 of the relevant item. This means that:

A woman born during the period:	will turn age pension age at:
1 January 1949 to 30 June 1952	65 years*
1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	66 years and 6 months
On or after 1 January 1957	67 years

* No increase in age pension age for this group.

The changes to the definition of pension age will flow through to a number of social security entitlements under the Social Security Act. For example, paragraph 593(1)(g) of the Social Security Act provides that pension age is the upper age qualification limit for newstart allowance. The upper age qualification limits for newstart allowance and sickness allowance will increase in line with the increase in pension age, as will the age qualification for the Commonwealth seniors health card and the upper age limit for disability support pension claims.

Schedule 12 – Advance payments

Summary

This Schedule improves existing arrangements in relation to advance payments, to enable social security recipients to have greater access to advances of certain social security pensions.

Background

As part of the Government's Secure and Sustainable Pension Reforms package, existing arrangements in relation to advances will be improved, to enable pensioners to have greater access to advances of certain social security payments, through increases in the maximum and minimum allowable advance and in the number of advances available in a year.

The Social Security Act provides for certain social security recipients to apply for an advance payment of their social security entitlement. The primary objective of advance payments is to make payments more flexible to the needs of social security recipients to help them meet unexpected expenses. An advance is not an additional payment, but is a lump sum pre-payment of a social security entitlement that is recovered from the pensioner.

This Schedule increases, with effect from 1 July 2010, the amount of maximum and minimum advance payment amounts and ensures that the maximum and minimum amount will be increased in line with increases in the rate of social security pensions. In addition, the measure will also enable the prescribed social security pensioners to be able to access multiple advances up to a maximum advance amount. This means that recipients of certain social security entitlements are no longer limited to one advance in any twelve month period.

The provisions contained in this Schedule only apply to social security recipients of age pension, disability support pension, wife pension, carer payment and widow B pension.

The amendments made by this Schedule commence on 1 July 2010.

Explanation of the changes

Amendments of the Social Security Act

Item 1 inserts in subsection 23(1) a definition of ‘advance payment qualifying amount’ for a person. Under paragraph (a) of the definition, if a person is receiving a social security pension which is worked out under Pension Rate Calculator A, the advance payment qualifying amount for a person is the sum of the person’s maximum basic rate plus the amount (if any) of the person’s pension supplement amount less the person’s minimum pension supplement amount.

Under paragraph (b) of the definition, if a person is receiving a social security pension which is worked out under any other Pension Rate Calculator in the Social Security Act (other than Pension Rate Calculator A), the amount of the person’s advance payment qualifying amount is worked out under paragraph (a) above, as if the person was receiving a social security pension as worked out under Pension Rate Calculator A.

Item 2 makes a minor technical amendment to paragraph 1061A(1)(b).

Item 3 inserts new subsection 1061A(3) into section 1061A of the Social Security Act. Subsection 1061A(3) provides rules that disqualify a person from an advance payment of age pension, disability support pension, wife pension, carer payment or widow B pension in certain circumstances. A person is not qualified for an advance payment if:

- the maximum amount of the advance payment to which the person is entitled under Division 4 of Part 2.22 is less than one week’s worth of the person’s advance payment qualifying amount; or
- the amount of an advance payment of a social security entitlement, which a person has received in full (whether as a single lump sum or in instalments), more than 12 months ago has not been fully repaid; or
- the person owes a debt to the Commonwealth (regardless of whether the debt arises under this Act or not) that is recoverable by deductions under Part 5.2 of the Social Security Act.

Rounding under paragraph 1061A(3)(a) is to the nearest cent (rounding 0.5 cents upwards).

Note 1 at the end of subsection 1061A(3) signposts that paragraph (a) of subsection 1061A(3) does not preclude an advance payment being paid in instalments of less than the amount worked out under that paragraph.

Note 2 directs the reader to the definition of ‘advance payment qualifying amount’ in subsection 23(1) of the Social Security Act.

Item 4 makes a technical amendment as a result of new subsection 1061A(3) and limits the application of subsection 1061A(4) to those social security entitlements not covered by subsection 1061A(3).

A note at the end of **item 4** signposts that the heading to subsection 1061A(4) is replaced by the new heading 'Disqualification – other social security entitlements'.

Item 5 adds a note at the end of subsection 1061A(4) signposting that paragraph (a) of subsection 1061A(4) does not preclude an advance payment being paid in instalments of less than \$250.

Item 6 makes a minor technical amendment to subsection 1061E(2).

Item 7 inserts new section 1061ECA into Division 4 of Part 2.22 of the Social Security Act. New section 1061ECA provides the rules for working out the amount of an advance payment.

Subsection 1061ECA(1) provides that this section applies to an amount of an advance payment that is worked out for a person receiving age pension, disability support pension, wife pension, carer payment or widow B pension.

Subsection 1061ECA(2) provides that the amount of the advance payment is the smaller of either:

- the amount of the advance payment sought; or
- the maximum amount of advance payment that is payable to the person as worked out under the method statement.

The method statement provides the rules for determining the maximum amount of the advance payment on a step by step basis.

Step 1 calculates an amount that is equal to 3 weeks' worth of the person's advance payment qualifying amount.

Step 2 calculates an amount that is equal to the annual rate of the person's social security pension that was payable on the last payday before the application for the advance payment was lodged (disregarding any additional amounts paid by way of remote area allowance and so much of the person's pension supplement amount (if any) that is equal to the person's minimum pension supplement amount.

Step 3 provides for a comparison between the result of step 1 and 7.5% of the result of step 2.

Step 4 provides that the sum of:

- each advance payment (if any) of a person's social security entitlement that may have previously been paid to the person during any of the 13 fortnights immediately before the application for the current advance payment was lodged; and
- each other advance payment (if any) of a social security entitlement that was paid to the person that has not been fully repaid;

is to be subtracted from the smaller of the two amounts compared at step 3.

Step 5 provides that the result of the calculation made under step 4 is the maximum amount of advance payment that is payable to the person (rounded to the nearest cent with the rounding 0.5 cents upwards).

Note 1 at the end of section 1061ECA signposts that the amount of the advance payment must be more than the minimum qualifying amount for the person which is provided by paragraph 1061A(3)(a).

Note 2 directs the reader to the definition of 'advance payment qualifying amount' in subsection 23(1) of the Social Security Act.

Currently, a person in receipt of age pension, disability support pension, wife pension, carer payment or widow B pension cannot receive more than one advance in a 12 month period. The effect of subsection 1061ECA is to remove this requirement – the nature of the method statement allows a person to receive multiple advance payments, subject to each advance exceeding the minimum advance amount. The total amount advanced in a 13 fortnight period can be up to three weeks' worth of the maximum basic rate applicable to the person.

The note at the end of **item 7** signposts that the heading to section 1061ED is replaced by the new heading 'Amount of advance payment – pension PP (single)'.

Item 8 repeals subsection 1061ED(1) and substitutes a new subsection 1061ED(1). New subsection 1061ED(1) provides that this section applies to the amount of advance payment that is worked out for people receiving parenting payment (single).

Item 9 makes a technical amendment to subsection 1061ED(2) as a result of changes to section 1061EH.

Item 10 adds a note at the end of subsection 1061ED(2) signposting that the amount of the advance payment for parenting payment (single) customers will be at least \$250, which is provided by paragraph 1061A(4)(a).

Item 11 repeals the definition of annual payment rate in subsection 1061ED(3) and substitutes a new definition. The outcome of this amendment is that, as a result of new section 1061ECA, the formula for working out the maximum amount of an advance payment under paragraph 1061ED(2)(b) only applies to the annual payment rate worked out under the Pension PP (Single) Rate Calculator as provided by paragraph 1061ED(3)(a). A minor technical amendment has been made to paragraph 1061ED(3)(b) to ensure consistency of language.

Item 12 makes a minor technical amendment to the example in subsection 1061ED(4) as a result of the change to section 1061ED.

Item 13 makes a minor technical amendment to subsection 1061EE(2) as a result of changes to section 1061EH.

Item 14 adds a note at the end of subsection 1061EE(2) signposting that the amount of the advance payment must be more than the minimum qualifying amount for the person which is provided by paragraph 1061A(4)(a).

Item 15 makes a minor technical amendment to paragraph (a) and (b) of the definition of 'fortnightly payment rate' under subsection 1061EE(6).

Item 16 repeals section 1061EH.

Item 17 provides an application provision to the effect that the amendments made by this Schedule apply in relation to applications for an advance payment which are lodged on or after 1 July 2010.

Schedule 13 – Commonwealth seniors health card

Summary

This Schedule will provide for adjusted taxable income for the Commonwealth seniors health card to include income salary sacrificed to superannuation.

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.

The change will apply to the Commonwealth seniors health card issued under either the Social Security Act or the Veterans' Entitlements Act.

Background

The measure provided by this Schedule, providing for adjusted taxable income for the Commonwealth seniors health card to include reportable superannuation contributions, including income salary sacrificed to superannuation, was originally introduced in the Social Security and Veterans' Entitlements Amendment (Commonwealth Seniors Health Card) Bill 2009 (the CSHC bill).

The CSHC bill also contained a second measure from the 2008 Budget, which intended income from a superannuation stream with a taxed source (gross superannuation) to be included in adjusted taxable income for the Commonwealth seniors health card.

The CSHC bill will be withdrawn from the notice paper. This Schedule essentially reintroduces the reportable superannuation contributions measure alone.

The Government will proceed with the measure from the CSHC bill to include in the adjusted taxable income test from 1 July 2009 income that is salary sacrificed to superannuation. This will be done by amending the current definition of **adjusted taxable income** in section 1071 of the Social Security Act and section 118ZZA of the Veterans Entitlements Act.

This measure is part of a wider program of making various tax and transfer programs fairer and better targeted to those in need of government assistance.

The amendments made by this Schedule commence on 1 July 2009.

Explanation of the changes

Amendments to the Social Security Act

Item 1 adds new paragraph (e) to point 1071-3 of the Social Security Act to expand the types of income to be included in a person's adjusted taxable income for a tax year, for the purposes of determining their qualification for the Commonwealth seniors health card.

New paragraph (e) provides that a person's reportable superannuation contributions for that tax year are to be included in their adjusted taxable income. The term **reportable superannuation contributions** draws its meaning from the Income Tax Assessment Act and captures income salary sacrificed to superannuation.

Item 2 provides that the addition to the definition of adjusted taxable income made by **item 1** are to apply to claims made on or after, and to grants made before, on or after, the commencement of **item 1**, but are not to affect a person's qualification for a card before that commencement. Therefore, there will be no adverse retrospective effect on a person from these amendments.

Amendments to the Veterans' Entitlements Act

Item 3 adds new paragraph (e) to point 118ZZA-3 of the Veterans' Entitlements Act to expand the types of income to be included in a person's adjusted taxable income for a tax year, for the purposes of determining their eligibility for the seniors health card.

New paragraph (e) provides that a person's **reportable superannuation contributions** for that tax year are to be included in their adjusted taxable income. The term **reportable superannuation contributions** draws its meaning from the Income Tax Assessment Act and captures income salary sacrificed to superannuation.

Item 4 provides that the additions to the definition of adjusted taxable income made by **item 3** are to apply to claims made on or after, and to grants made before, on or after, the commencement of **item 3**, but are not to affect a person's qualification for a card before that commencement. Therefore, there will be no adverse retrospective effect on a person from these amendments.

Schedule 14 – Indexation under the family assistance law

Summary

Amendments are made to the indexation arrangements for the FTB under 13 child rate and the FTB 13-15 child rate so that these rates are indexed on 1 July 2009 and each subsequent 1 July in accordance with movements in the Consumer Price Index (CPI) only. Current benchmarks for these rates to the combined pensioner couple rate (which is linked to male total average weekly earnings) are removed from 30 June 2009, ahead of indexation on 1 July 2009.

The indexation arrangements for MIA are amended so that MIA is indexed once every year, on 1 July. MIA is currently indexed on 20 March and 20 September each year. Under the new arrangements, MIA will not be indexed on 20 September 2009 and 20 March 2010 and will next be indexed on 1 July 2010 and each 1 July thereafter.

Background

Adjustment of certain FTB child rates

FTB child rates are subject to indexation on 1 July each year in accordance with movements in the CPI. However, the FTB under 13 and 13-15 child rates may also be affected by adjustment under clause 7 of Schedule 4 to the Family Assistance Act, where adjustment would result in a higher rate than CPI indexation. Adjustment under clause 7 takes into account the 'CPC rate' which is defined in subsection 3(7) of the Family Assistance Act as twice the sum of the maximum basic rate of age pension plus the pension supplement for a partnered person (under Pension Rate Calculator A in the Social Security Act).

Amendments are made to remove the potential for adjustment of the FTB under 13 and 13-15 child rates. These rates will be subject to indexation in accordance with movements in the CPI on 1 July 2009 and on each subsequent 1 July.

Indexation of maternity immunisation allowance

MIA is a per child payment that aims to encourage parents or guardians to fully immunise children in their care. It also encourages parents who adopt children from outside Australia to immunise their children in accordance with Australian standards.

The amount of MIA in respect of a child is set out in section 67 of the Family Assistance Act (currently \$245.50).

Section 85 of the Family Assistance Act provides for the indexation of MIA (and baby bonus) in accordance with Schedule 4 to the Family Assistance Act. Schedule 4 to the Family Assistance Act provides for the indexation of specified rates and amounts mentioned in the family assistance law.

MIA is currently indexed in line with movements in the CPI twice each year, on 20 March and 20 September. MIA is referenced in item 17B of the indexed and adjusted amounts table in clause 2 of Schedule 4 and the indexation arrangements for MIA are set out in item 17B of the CPI indexation table in clause 3 of Schedule 4.

The indexation arrangements for MIA are amended so that the payment is indexed once each year, consistent with the indexation arrangements for other family assistance payments. After these changes, the only family assistance amounts subject to indexation on 20 March and 20 September will be the maximum amount of rent assistance and the rent threshold amount which will continue to be indexed on the same days on which these amounts are indexed for social security income support payments.

Under the new indexation arrangements for MIA, MIA will not be indexed on 20 September 2009 and 20 March 2010 but will be indexed on 1 July 2010 and on each subsequent 1 July.

The amendments made by this Schedule to items 1, 2, 4 and 5 commence on 30 June 2009 and to item 3, on 3 July 2009.

Explanation of the changes

Adjustment of certain FTB child rates

Subsection 3(1) of the Family Assistance Act defines 'CPC rate' by reference to subsection 3(7), which then sets out the meaning of the term. CPC rate is then used in the formulas in clause 7 in Part 3 of Schedule 4 to the Family Assistance Act to determine whether the FTB under 13 and 13-15 child rates are to be adjusted under that provision (instead of being indexed in accordance with movements in the CPI).

Item 1 repeals the definition of 'CPC rate' in subsection 3(1) of the Family Assistance Act while **item 2** repeals the related subsection 3(7).

Item 5 repeals Part 3 of Schedule 4 (clause 7), from 30 June 2009. The effect is that the FTB under 13 and 13-15 child rates will be subject to CPI indexation, without the possibility of adjustment, on 1 July 2009 and on each subsequent 1 July.

Item 4 makes a technical amendment to step 4 in the method statement in subclause 4(2) of Schedule 4 to the Family Assistance Act to remove a sentence referring to clause 7 (repealed by **item 5**).

Indexation of maternity immunisation allowance

Item 3 repeals table item 17B of subclause 3(1) of Schedule 4, which provides for indexation of MIA on 20 March and 20 September each year. In its place is substituted a new item 17B. The new indexation day for MIA is 1 July (Column 2). The relevant reference quarter in Column 3 is the most recent December quarter with the base quarter in Column 4 being the highest December quarter before the reference quarter (but not earlier than the December quarter of 2008).

The amendment made by **item 3** commences on 3 July 2009. This commencement date ensures that the new 1 July indexation arrangements for MIA cannot be construed as allowing for a 1 July 2009 indexation. It also ensures that MIA is not indexed on 20 September 2009 and 20 March 2010 as the existing arrangements are repealed before these indexation dates.

Schedule 15 – Portability of payments

Summary

This Schedule makes amendments to the portability arrangements so that certain social security recipients, whose overseas absence is for the purpose of undertaking overseas study as a part of a full-time Australian course, may be paid for the duration of the overseas study, provided the study can be credited towards their Australian course.

Background

Prior to the changes made by this Schedule, only youth allowance and austudy recipients who were full-time students studying outside Australia for the purposes of their Australian course, were eligible for extended portability under section 1218. The changes made by this Schedule allow other social security recipients to enjoy this extended portability for the purposes of study.

The amendments made by this Schedule commence on 20 September 2009.

Explanation of the changes

Amendments of the Social Security Act

Item 1 replaces ‘section 1218AA’ with ‘sections 1218AA and 1218’ in Column 5 Maximum portability period of the section 1217 table item 3.

Item 2 inserts ‘(but see also section 1218)’ after ‘13 weeks’ in Column 5 Maximum portability period of the section 1217 table items 5, 6, 9 and 10.

Item 3 replaces ‘section’ with ‘sections 1218 and’ in Column 5 Maximum portability period of the section 1217 table item 11.

Item 4 inserts ‘(but see also section 1218)’ after ‘13 weeks’ in Column 5 Maximum portability period of the section 1217 table item 20.

In keeping with the style of the rest of the table, the purpose of the amendments made by **items 1, 2, 3 and 4** is to indicate that section 1218 may be relevant in working out the maximum portability period for disability support pension, wife pension, carer payment, widow B pension, widow allowance, parenting payment, youth allowance, austudy payment or partner allowance. Section 1217 table item 4 and section 1217 table item 8 are unchanged, as people receiving wife pension entitled and widow B pension entitled will continue to have unlimited portability, regardless of the changes to section 1218 under this bill.

Item 5 replaces 'youth allowance or austudy payment' with 'disability support pension, wife pension, carer payment, widow B pension, widow allowance, parenting payment, youth allowance, austudy payment or partner allowance' under paragraph 1218(1)(b). The purpose of this change is to allow recipients of these payments to use this exception, which was previously only available to youth allowance and austudy recipients.

Item 6 replaces 'youth allowance or austudy payment' with 'disability support pension, wife pension, carer payment, widow B pension, widow allowance, parenting payment, youth allowance, austudy payment or partner allowance' under subsection 1218(2). The purpose of this change is to allow recipients of these payments to use this exception, which was previously only available to youth allowance and austudy recipients.

Item 7 insert '(1)' before 'If' in section 1218B.

Item 8 inserts '(2) This section is subject to section 1218' at the end of section 1218B.

Section 1218B refers to a 13 week minimum return period for parenting payment if the person's payment was cancelled while overseas. Generally, where a person on parenting payment goes overseas for longer than their maximum portability period and then, as a result, their payment is cancelled, section 1218B requires that, for the parenting payment to be portable again, the recipient must spend 13 weeks in Australia. **Items 7 and 8** make an exception for full-time students so that this requirement will not apply if the travel is within 13 weeks and covered under section 1218.

Item 9 states that the amendments made by this Schedule apply in relation to periods of absences beginning on or after the commencement of this schedule, which is 20 September 2009.

Schedule 16 – Excluded payments

Summary

This Schedule excludes a payment made under the Western Australian Cost of Living Rebate Scheme and the value of a Western Australian Country Age Pension Fuel Card from the social security and veterans' affairs income tests.

Background

Under the Social Security Act and Veterans' Entitlements Act, as part of calculating a person's social security and veterans' affairs payments, a person's rate of payment is calculated under an income test and an assets test, with the test that results in the lower (or nil) rate of payment being the one that applies.

Subsection 8(8) of the Social Security Act and subsection 5H(8) of the Veterans' Entitlements Act provide that certain amounts are not income for the purposes of the social security law and veterans' affairs legislation.

The Government has decided to exclude amounts received under the Western Australian Cost of Living Rebate Scheme and the value of the benefits received under the Western Australian Country Age Pension Fuel Card from the social security and veterans' affairs income tests for the financial years 2009-10 to 2011-12.

This Schedule provides for the following amounts to be excluded from the social security and veterans' affairs income tests, starting on 1 July 2009 and ending on 30 June 2012:

- amounts received by Western Australian Seniors Card holders under the Western Australian Cost of Living Rebate Scheme; and
- the value of the benefit of the Western Australian Country Age Pension Fuel Card received by people receiving an age pension from Centrelink or the Department of Veterans' Affairs.

The amendments made by this Schedule commence on 1 July 2009.

Explanation of the changes

Amendments of the Social Security Act

Item 1 inserts paragraphs 8(8)(zaa) and 8(8)(zab) after paragraph 8(8)(za). New paragraph 8(8)(zaa) provides that an amount received under the scheme known as the Western Australian Cost of Living Rebate Scheme received during the financial years beginning on 1 July 2009, 1 July 2010 or 1 July 2011 is excluded from the social security income test.

Paragraph 8(8)(zab) provides that the value of a benefit obtained by using a card known as the Western Australian Country Age Pension Fuel Card, where the use occurs during the financial years beginning on 1 July 2009, 1 July 2010 or 1 July 2011, is excluded from the social security income test.

Amendments of the Veterans' Entitlements Act

Item 2 inserts new paragraphs 5H(8)(zea) and 5H(8)(zeb) after paragraph 5H(8)(ze). New paragraph 5H(8)(zea) excludes from the definition of 'income', an amount received under the scheme known as the Western Australian Cost of Living Rebate Scheme, where the amount is received during the financial year beginning on 1 July 2009, 1 July 2010 or 1 July 2011.

New paragraph 5H(8)(zeb) excludes from the definition of 'income' the value of a benefit obtained by using a card known as the Western Australian Country Age Pension Fuel Card, where the use occurs during the financial year beginning on 1 July 2009, 1 July 2010 or 1 July 2011.

Schedule 17 – Amendments relating to aged care

Summary

This Schedule amends the Aged Care Act as a result of the increase in the rate of age pension on 20 September 2009. Under this measure (implementing the 2009 Budget measure *Secure and sustainable pensions – residential aged care*), the contribution to the cost of living for people in residential aged care will also increase to enable the appropriate and equitable flow of the pension increase to both the care recipient and the approved residential provider.

Background

On 20 September 2009 the Australian Government is increasing the rate of the basic age pension to ensure that older Australians receive enough income to keep pace with the cost of living.

People in residential aged care make a contribution to their cost of living (for example, food, cleaning and utilities) through payment of a fee to the residential aged care service provider. This fee is referred to in the Aged Care Act as the standard resident contribution, but is also commonly known as the basic daily fee. The maximum amount of standard resident contribution paid by the resident is set out in the Aged Care Act and is directly linked to the basic age pension amount (currently 85 per cent of the basic age pension).

To enable the appropriate and equitable flow of pension increase to both the care recipient and the approved provider, amendments to the Aged Care Act are proposed.

In summary, the amendments ensure that:

- Pensioners in aged care benefit from the increased pension and have more money available for incidental expenses, a total of \$76.76 per week, which is an increase of almost 15 per cent on what they currently have. Of the \$32.49 per week increase in the single age pension, pensioners currently in residential aged care will receive a net benefit of \$10.09 more per week for incidental expenses.
- An additional \$22.40 per week will flow to the residential aged care provider as a result of the pension rise. Australia's 2,830 aged care homes will receive an additional \$713.2 million over the next four years to contribute to the costs of services such as food and cleaning.
- This is achieved by setting the standard resident contribution to 84 per cent of the basic age pension from 20 September 2009.

- People on fixed incomes who do not benefit from the pension increase are protected from paying higher fees in aged care. Aged care residents who are in care on 19 September 2009, and who are self funded retirees or part pensioners for whom the pension increase is less than the planned increase in the standard resident contribution, will be protected and remain on their existing fee rate (\$33.41 per day subject to six-monthly indexation commencing on 20 September 2009) until they leave care.
- Newly entering residents (on or after 20 September 2009) who are self funded retirees or part pensioners who do not benefit from the new pension arrangements will be subject to a phased rate. These residents will initially pay the same rate as protected residents (\$33.41 per day as indexed on 20 September 2009). Over four years their fees will be phased up every 6 months until the fees are equal to 84 per cent of the basic age pension.

The amendments outlined in this Schedule also introduce a compensating aged care supplement to be paid to approved providers of residential aged care for residents paying the phased rate of standard resident contribution. The Government has provided \$25.2 million over 4 years for the new aged care supplement (to be known as the 'resident contribution top up supplement'). The supplement will phase out completely on 19 March 2013, when residents who have been paying the phased amount, will all be paying the general rate of standard resident contribution (84 per cent).

This Schedule also makes consequential changes to those sections in the Aged Care Act that set thresholds by reference to the basic age pension. This will maintain the current arrangements including the current eligibility for assistance.

The changes ensure that the thresholds do not increase in dollar terms as a result of the increase in the base rate of the pension. Affected sections include those relating to the minimum permissible asset amount for the purposes of working out maximum accommodation bonds and accommodation charges and also asset ranges for the purpose of working out eligibility to be a concessional or assisted resident.

The amendments made by this Schedule commence on 20 September 2009.

Explanation of the changes

Part 1 – Main amendments

Amendments of the Aged Care Act

Items 1 to 6 amend sections 44-7 and 44-8, which set out the meaning of 'concessional resident' and 'assisted resident'.

The sections set out criteria that must be met in order for a person to be a concessional or assisted resident. One of these criteria, the assets criterion, is that the value of the person's assets at the applicable time must be less than 2.5 times the basic age pension (annual) for concessional residents and less than 4 times for assisted residents.

From 20 September 2009, the basic pension amount will increase. However, it is not intended that the asset criteria should change.

Therefore, this item amends section 44-7 for concessional residents and section 44-8 for assisted residents so that, if a person's eligibility to be a concessional or assisted resident is being assessed based on a determination of the person's assets made on or after 20 September 2009, then the value of the person's assets must be less than 2.25 times the basic age pension for concessional residents and 3.61 times for assisted residents. This equates to 2.5 and 4 times the basic age pension as it existed immediately before 20 September 2009.

Item 7 amends subsection 44-21(3) of the Aged Care Act. Subdivision 44-E establishes the aged care income test, which determines the amount by which the Commonwealth Government's residential care subsidy is reduced, based on the amount of a care recipient's income-tested fee.

Currently the amount of the income-tested fee (and hence the subsidy reduction) for a care recipient is capped at the lesser of:

- 5/12 of the care recipient's 'total assessable income' above the 'total assessable income free area'; or
- 150 per cent of the single basic age pension; or
- the cost of the resident's care, which includes basic subsidy and primary supplements.

From 20 September 2009, the amount of the single basic age pension will increase. If no change is made to this provision, the maximum amount of the income tested fee will rise considerably from 20 September 2009 (because it is 150 per cent of the basic age pension on the relevant day).

To preserve the current maximum income tested fee, this item amends the income tested reduction calculator so that it refers to 135 per cent of the single basic age pension for calculations relating to any day that is on or after 20 September 2009.

The application provision at Item 23 makes it clear that the changes made by Item 7 apply in relation to the calculation of the daily income tested reduction under subsection 44-21(3) for any day that is on or after 20 September 2009.

Item 8 amends paragraph 44-23(4)(a) of the Aged Care Act. Section 44-23 describes the effect on the daily income tested reduction if a care recipient fails to give the Secretary requested information in order to calculate the care recipient's total assessable income.

In these circumstances, the daily income tested reduction is deemed to be the lesser of:

- 150 per cent of the basic age pension amount; or
- the cost of the resident's care, which includes basic subsidy and primary supplements.

From 20 September 2009, the amount of the single basic age pension will increase. If no change is made to this provision, the amount of the daily income tested reduction will rise considerably from 20 September 2009.

This item amends this section so that for days on or after 20 September 2009, the calculation in paragraph 44-23(4)(a) is by reference to 135 per cent of the basic age pension rather than 150 per cent of the basic age pension.

The application provision at Item 24 puts beyond doubt any timing issues relating to when the amendment described in Item 8 takes effect. It provides that the amendment made by Item 8 applies in relation to the calculation of the daily income tested reduction under subsection 44-23(4) for a day that is on or after 20 September 2009.

Item 9 repeals section 44-25 and substitutes a new section 44-26. Under the Aged Care Act, the Secretary considers the total income of a care recipient in order to determine the amount of residential care subsidy payable by the Commonwealth and the amount of income-tested fee paid by the care recipient. In doing this, the Secretary considers the care recipient's total assessable income (i.e. income from pension and other sources) and also amounts that are excluded for the purpose of the calculation. These excluded amounts are collectively known as the 'total assessable income free area'.

Section 44-26 currently defines the total assessable income free area as being the sum of:

- the maximum basic rate of age pension;
- the pension supplement;
- the pharmaceutical allowance; and
- the income free area.

New section 44-26 provides for calculations of the total assessable income free area to differ for residents who obtain the full benefit of the pension rate increase and those who are protected or phased residents who are not receiving the full increase in age pension.

In the provision these amounts are expressed by reference to the areas in the Social Security Act in which they are calculated - namely relevant points of Pension Rate Calculator A at the end of section 1064 of the Social Security Act.

For protected residents, the old maximum basic rate of pension will be used in the calculation rather than the new rate. This ensures that the total assessable income free area does not increase for these residents.

For phased residents, a formula will be applied such that from 20 September 2009 to 20 March 2013, the total assessable income free area will steadily increase as the person is phased from the old basic rate of age pension being applied to the new rate.

For all other residents, the total assessable income free area will be based on the new maximum rate of basic age pension.

In all cases the total assessable income free area will be the sum of:

- the old maximum basic rate of pension (protected residents) or the phased rate of maximum basic rate of pension (phased residents) or the new maximum basic rate of pension (all other residents); and
- the rate of extra pension supplement (which replaces the pension supplement and the pharmaceutical allowance); and
- the income free area.

The amendment made by Item 9 applies in relation to the calculation of the total assessable income free area for a care recipient under section 44-26, for the purposes of working out the daily income tested reduction in respect of the care recipient for a day that is on or after 20 September 2009.

Items 10 and 12 provide for the 'resident contribution top up supplement'.

Item 10 amends section 44-27 to provide for a new type of supplement, known as the 'resident contribution top up supplement'.

Item 12 inserts new section 44-32 which sets out the eligibility criteria for, and amount of, the new supplement. The resident contribution top up supplement will be payable in respect of 'phased residents' entering care on or after 20 September 2009 but before 20 March 2013 (see Item 16 for explanation of 'phased residents').

The resident contribution top up supplement for such care recipients is an amount equal to the difference between:

- the amount that is the standard resident contribution for that day under subsection 58-3(1) (i.e. 84 per cent of the basic age pension); and
- the amount that is the standard resident contribution for that day under subsection 58-4(3) (i.e. the phased amount of standard resident contribution for the particular day) (see Item 16).

The new supplement has been created to fund aged care providers the difference between a phased resident's rate and the amount equal to the general standard resident contribution (84 per cent of the basic age pension). The value of this new aged care supplement is \$25.2 million over four years. The new supplement will phase out completely on 19 March 2013.

The application provision at **Item 26** puts beyond doubt any timing issues relating to when the amendment described in **Items 10 and 12** take effect. It provides that the amendments made by Items 10 and 12 apply in relation to the calculation of the residential care subsidy for a care recipient under section 44-2 in respect of a day that is on or after 20 September 2009.

Item 11 repeals paragraph 44-28(3)(b) and substitutes a new paragraph 44-28(3)(b). One of the eligibility criteria for the pensioner supplement (in section 44-28) is the size of the bond paid by the care recipient. If the care recipient paid a bond greater than 10 times the basic age pension (and they do not have a dependent child), the care recipient will not be eligible for pensioner supplement.

This item amends the section to ensure that this threshold is not increased in dollar terms as a result of the increase in the basic rate of the pension from 20 September 2009.

The item achieves this by repealing paragraph 44-28(3)(b) and replacing it with a new paragraph the effect of which is that a person will not be eligible for a pensioner supplement if the person entered a residential aged care service:

- before 20 September 2009 and the bond paid exceeded 10 times the basic age pension amount; or
- on or after 20 September 2009 and the bond exceeded 9 times the basic age pension amount.

This ensures that the eligibility criteria for the pensioner supplement remains consistent before and after 20 September 2009 despite the increase in the basic age pension amount. It should be noted that there is no change to other eligibility criteria that will continue to apply for the pensioner supplement including the requirement that the person must be a pre-2008 reform resident. References to entry to care after this time refers to a move from one residential aged care service to another residential aged care service where there has not been a break in care of more than 28 days.

Item 13 repeals subsection 57-12(3) and substitutes a new subsection 57-12(3). Section 57-12 sets out the maximum amount of accommodation bond a care recipient can be asked to pay for entry to a residential care service or flexible care service.

This section provides that, after paying an accommodation bond, a care recipient should be left with an amount at least equal to the care recipient's minimum permissible asset value.

Subsection 57-12(3) sets out a care recipient's minimum permissible asset value which is 2.5 times the basic age pension.

Item 13 amends this subsection so that a different multiplying factor is applied pre and post 20 September 2009 as follows:

- if a person enters a residential aged care service on or before 19 September 2009 – the care recipient's minimum permissible asset value is the amount obtained by rounding to the nearest \$500.00 an amount equal to 2.5 times the basic age pension (or such higher amount specified in Principles); or
- if a person enters the residential aged care service on or after 20 September 2009 – the care recipient's minimum permissible asset value is the amount obtained by rounding to the nearest \$500.00 an amount equal to 2.25 times the basic age pension (or such higher amount specified in Principles).

The effect of this change is to ensure that the minimum permissible asset value remains constant before and after 20 September 2009 despite the increase in the basic age pension that will occur on 20 September 2009.

Item 14 makes a consequential change to the paragraph reference in item 1 of the table in subsection 57-12(5). The consequential change aligns the references with the changes made to the paragraphs within the definition of minimum permissible asset value (see Item 13 above).

Items 15 and 16 amends sections 58-2 to 58-4A of the Aged Care Act. Currently, all residents in aged care can be asked to pay a standard resident contribution to cover living expenses such as meals, cleaning, laundry, heating and cooling.

Currently sections 58-3, 58-4 and 58-4A describe different calculations for the standard resident contribution depending on whether the person is a pre or post-2008 reform resident and whether or not they were receiving an income support payment.

Item 16 item repeals those sections (sections 58-3, 58-4 and 58-4A) and replaces them with new sections that describe different ways to work out the standard resident contribution depending on the circumstances of the individual. **Item 15** makes consequential changes to the resident fee calculator in section 58-2 to reflect new section numbering of the provisions relating to standard resident contribution (described below).

In accordance with **Item 26**, the amendments made by **Items 15 and 16** apply in relation to the calculation of the standard resident contribution for a care recipient under Division 58 of the Aged Care Act in respect of a day that is on or after 20 September 2009.

From 20 September 2009, under section 58-3, the standard resident contribution for a care recipient is the amount obtained by rounding down to the nearest cent an amount equal to 84 per cent of the basic age pension amount (worked out on a daily basis).

There are, however, exceptions to the rule as follows:

- for 'protected' residents – people who were in care on 19 September 2009 who did not get the benefit of a pension increase – their current situation will be preserved and they will pay no more in standard resident contribution than they currently pay (subject to indexation);
- for 'phased' residents – people who enter care on or after 20 September 2009 but do not get the benefit of a pension increase – the standard resident contribution will initially be the rate payable by a 'protected' resident (until 19 March 2010) and will steadily increase until it reaches 84 per cent of the basic age pension amount by 20 March 2013; and
- certain residents who entered care prior to 20 March 2008 – the current situation will be preserved and these residents will continue to pay the standard resident contribution that they currently pay (indexed in line with the pension (with the first indexation occurring on 20 September 2009 and 6 monthly thereafter).

The eligibility of a person to be a 'protected' or 'phased' resident depends on whether the person entered residential aged care before on or after 20 September 2009. New section 58-3A defines 'pre-September 2009 residents' and 'post-September 2009 residents' for use in defining 'protected' and 'phased' residents in new sections 58-3B and 58-4 (see below).

A 'pre-September 2009 resident' is a person who is being provided with residential care through a residential care service who either:

- entered a residential care service before 20 September 2009; or
- was on pre-entry leave from a residential care service immediately before 20 September 2009 and entered the residential care service on or after 20 September 2009 at the end of that pre-entry leave.

In either case the person must not have had a break in residential care of more than 28 days between:

- the last residential care service through which residential care was provided, or taken to be provided, to the person before 20 September 2009 and the next residential care service through which residential care is provided, or taken to be provided, to the person; and
- any residential care service through which residential care is provided, or taken to be provided, to the person on or after 20 September 2009 and the next residential care service through which residential care is provided, or taken to be provided, to the person.

The section defines 'break in residential care' as beginning on the day on which a person ceases to be provided with residential care through a residential care service (other than because the person is on leave from the residential care service) and ending on the day on which the person enters, or begins pre-entry leave, with the next residential care service through which residential care is provided.

A 'post-September 2009 resident' is a person being provided with residential care through a residential care service who is not a pre-September 2009 resident.

The section also clarifies that for both definitions, a person is not provided, or taken to be provided, with residential care during any period during which the person is being provided with respite care.

New section 58-3B provides for the meaning of 'protected residents'.

'Protected residents' will continue to pay a standard resident contribution equivalent to their pre 20 September 2009 rate (indexed).

A care recipient is 'protected' if the person:

- is a pre-September 2009 resident; and
- is not a pre-2008 reform resident to whom section 58-3C applies; and
- on 19 September 2009, was either:
 - not receiving an income support payment (i.e. the person was a self-funded retiree); or

- receiving an income support payment but the person's income is such that the rise in the pension is less than the rise in fees. This is expressed in section 58-3B as being the situation where the person's pension income is equal to or more than the sum of the person's ordinary income free area under the *Social Security Act 1991* and \$5,668.00.

If a person is a protected resident, the standard resident contribution for that person is \$33.41 indexed on 20 September 2009 and every 6 months in line with the indexation arrangements for the basic rate of the pension. This rate (subject to indexation) is set for the entire time the person remains in residential aged care without a break in care of 28 days or more.

New section 58-3C preserves the position of certain pre-2008 reform residents. In order to fall within this class care recipient must meet certain requirements on 19 September 2009, and also from 20 September onwards as different circumstances can apply as follows:

Eligibility for this class

In order to fall in this class a person must be a pre-2008 reform resident and on 19 September 2009:

- not have a dependent child; and
- either:
 - not be receiving an income support payment; or
 - have paid an accommodation bond for entry into the residential care service in question that is greater than 10 times the basic age pension amount at the time of entry; or
 - not have provided the Secretary with requested information relevant to calculating the daily income tested reduction such that the daily income tested reduction in respect of the care recipient was an amount worked out under section 44-23.

In addition, on 20 September 2009 and on each day since that day the care recipient must:

- not have a dependent child; and
- either:
 - not be receiving an income support payment; or
 - have paid an accommodation bond for entry into the residential care service in question that is greater than:

- 10 times the basic age pension amount at the time of entry if the person entered the residential care service in question before 20 September 2009; or
- 9 times the basic age pension amount at the time of entry if the person entered the residential care service in question on or after 20 September 2009; or
- not have provided the Secretary with requested information relevant to calculating the daily income tested reduction such that the daily income tested reduction in respect of the care recipient was an amount worked out under section 44-23.

Following are some examples of how this class would operate for various individuals:

- A person who, on 19 September 2009, is a pre-2008 reform resident who is also a self funded retiree with no dependent children, would fall within this class and would stay in the class while their circumstances do not change. If, after 20 September 2009, the person's circumstances changed and the person became eligible for an income support payment, they would only remain in this class if the bond that they paid for entry to the service was above 9 or 10 times the basic age pension (with the multiplying factor varying depending on their date of entry to the service). If the person paid a smaller bond, then once they start receiving an income support payment they will start paying the standard rate of standard resident contribution (84 per cent of the basic age pension) rather than the rate applicable to this exception class;
- A person who, on 19 September 2009, is a pre-2008 reform resident who paid a large bond (10 times the basic rate of pension at time of entry) with no dependent children, would fall within this class and would stay in the class while their circumstances do not change. If, after 20 September 2009, the person became responsible for a dependent child, the person would no longer be part of this class and would start paying the standard rate of standard resident contribution (84 per cent of basic age pension) rather than the rate applicable to this exception class; and
- A person who did not meet the criteria of this class on 19 September 2009 but subsequently met the post 20 September criteria (for example, they were on a full pension on 19 September 2009 and did not pay a big bond and later became a self funded retiree) would not ever be part of this exception class. The criteria must be met on 19 September 2009 and the criteria must be met for all days after that date in order for a person to be eligible for this exception class.

Amount of standard resident contribution

If a person meets the above eligibility criteria, the standard resident contribution for a person in this class is \$41.61 as indexed in line with the indexation of the basic rate of pension, where the first indexation occurs on 20 September 2009 and then occurs every 6 months thereafter.

New Section 58-4 provides that phased residents will pay a standard resident contribution starting at an amount equal to the protected rate for the first 6 months (until 20 March 2010). This will be phased up to an amount equal to 84 per cent of the basic age pension over the period from 20 March 2010 to 20 March 2013. This phasing period ensures that those residents who did not benefit from the increase to the basic age pension, that enter care from 20 September 2009, will not have a significant jump in the amount they could be asked to pay as a standard resident contribution.

To give effect to this policy, new section 58-4 provides that a phased resident is one who enters care on or after 20 September 2009 and either:

- is not receiving an income support payment; or
- is receiving an income support payment but the amount that the person is receiving is such that they do not benefit from the pension increases. For this to be the case, the person's pension income must be greater than the sum of the person's ordinary income free area under the *Social Security Act 1991* and \$5,668.00 (indexed).

For such residents, the standard resident contribution is:

- \$33.41 as indexed on 20 September 2009 and 6 monthly thereafter in line with the basic age pension. This is the same as for protected residents for the period 20 September 2009 to 19 March 2010; and
- from 20 March 2010, the amount worked out by applying a percentage of the basic age pension where the percentage is steadily increasing every 6 months until it is the same percentage as that paid by full pensioners who received the full benefit of the pension increase.

The relevant standard resident contribution for phased residents is:

Standard resident contribution—phased residents		
Item	If the particular day is in the period ...	the relevant percentage is ...
1	20 March 2010 to 19 September 2010 (inclusive)	78%
2	20 September 2010 to 19 March 2011 (inclusive)	79%
3	20 March 2011 to 19 September 2011 (inclusive)	80%

Standard resident contribution—phased residents		
Item	If the particular day is in the period ...	the relevant percentage is ...
4	20 September 2011 to 19 March 2012 (inclusive)	81%
5	20 March 2012 to 19 September 2012 (inclusive)	82%
6	20 September 2012 to 19 March 2013 (inclusive)	83%

After 19 March 2013 there will no longer be any phasing arrangements. People who were previously phased residents will, from 20 March 2013, pay the standard resident contribution rate in accordance with subsection 58-3(1), that is, 84 per cent of the basic age pension.

Items 17 to 22 are consequential amendments to the dictionary in Clause 1 of Schedule 1 of the Aged Care Act.

These items repeal, amend or provide definitions for concepts and terms affected by the 20 September 2009 changes to the Aged Care Act, as follows:

- phased resident has the meaning given by section 58-4;
- post-September 2009 resident has the meaning given by section 58-3A;
- pre-September 2009 resident has the meaning given by section 58-3A;
- protected resident has the meaning given by section 58-3B.

Item 20 repeals the definition of standard pensioner contribution as this is no longer needed.

Item 21 amends the definition of standard resident contribution by removing the references to current sections 58-4 or 58-4A and substituting new sections 58-3B, 58-3C or 58-4, which provide for the exceptions to the general rule for standard resident contribution.

Part 2 – Application provisions

This Part details how each of the provisions will be expected to operate and how the various timings apply. Any provisions not referenced in this Part commence on 20 September 2009.

Items 23 to 27 provide that:

- the amendment made by **Item 7** applies in relation to the calculation of the daily income tested reduction under subsection 44-21(3) for a day that is on or after 20 September 2009;

- the amendment made by **Item 8** applies in relation to the calculation of the daily income tested reduction under subsection 44-23(4) for a day that is on or after 20 September 2009;
- the amendment made by **Item 9** applies in relation to the calculation of the total assessable income free area for a care recipient under section 44-26 for the purposes of working out the daily income tested reduction in respect of the care recipient for a day that is on or after 20 September 2009;
- the amendments made by **Items 10 and 12** apply in relation to the calculation of the residential care subsidy for a care recipient under section 44-2 in respect of a day that is on or after 20 September 2009; and
- the amendments made by **Items 15 and 16** apply in relation to the calculation of the standard resident contribution for a care recipient under Division 58 of the Aged Care Act in respect of a day that is on or after 20 September 2009.

Schedule 18 – Operational area

Summary

This Schedule adds a new ‘operational area’ to Schedule 2 to the Veterans’ Entitlements Act. Australian Defence Force members allotted for duty in an operational area have access to pensions, treatment and other benefits available under the Veterans’ Entitlements Act. Where a veteran has operational service, the standard of satisfaction for determining eligibility for disability pension is the more generous ‘reasonable hypothesis’ standard of proof, in accordance with subsections 120(1) and (3) and section 120A of the Veterans’ Entitlements Act.

Background

Certain post World War 2 operational service is defined in section 6C of the Veterans’ Entitlements Act and requires that a member of the Australian Defence Force be allotted for duty in an operational area. Operational areas are those areas described in column 1 of Schedule 2 to the Veterans’ Entitlements Act during the periods specified in column 2 of Schedule 2. Veterans with operational service may be eligible for pensions under Part II and treatment under Part V of the Veterans’ Entitlements Act for injuries and diseases resulting from that service.

By virtue of subparagraph 7A(1)(a)(iii), service in an operational area while allotted for duty also gives a veteran ‘qualifying service’. Veterans with qualifying service are eligible to claim service pension under Part III of the Veterans’ Entitlements Act.

Following a recent review by the Nature of Service Review Team within the Department of Defence, it was agreed that the Area of Operations of Operation DAMASK VI, during the period from and including 13 January 1993 to and including 19 January 1993, should be classified as an ‘operational area’ for the purposes of the Veterans’ Entitlements Act. During this period, the Operation DAMASK VI Area of Operations was the area of the Red Sea north of parallel 20 degrees north latitude.

This decision will give Australian Defence Force members, allotted for duty on board *HMAS Canberra* as part of Operation DAMASK VI during the specified period, operational and qualifying service for the purposes of the Veterans’ Entitlements Act.

Personnel affected by this new operational area generally already have access to many of the benefits of operational service due to the current classification of their service as ‘hazardous’ under the terms of a Ministerial determination.

It is intended that the Vice Chief of the Defence Force will retrospectively allot the relevant Defence Force personnel involved in Operation DAMASK VI.

The amendments made by this Schedule commence on the day on which they received Royal Assent.

Explanation of the changes

Item 1 amends paragraph 5B(2)(b). Section 5B defines, for the purposes of the Veterans' Entitlements Act, the term 'allotted for duty' and sets out the allotted for duty requirements relevant to specific operational areas. As it is intended that the Vice Chief of the Defence Force will retrospectively allot for duty Australian Defence Force personnel involved in Operation DAMASK VI, paragraph 2(b) of the definition of 'allotted for duty' is amended to include a reference to new item 15 of Schedule 2.

Item 2 adds a new operational area to Schedule 2. New item 15, added to the end of the table in Schedule 2, provides that, during the period from and including 13 January 1993 to and including 19 January 1993, the area of the Red Sea north of the parallel 20 degrees north latitude was an operational area.