



# More Choices for a Longer Life – finances for a longer life

## 2018 Budget

From 1 July 2019, there will be changes to the pension Work Bonus, the Pension Loans Scheme and means testing rules for pooled lifetime retirement income streams.

### What was announced in the 2018 Budget?

Australians are now expected to live 10 years longer than they were 50 years ago, with our life expectancy now the fifth highest in the OECD. A longer life presents different opportunities for different people. The Government is acting to support Australians to be prepared to live a healthy, independent, connected and safe life.

The following changes are part of the Government's *More Choices for a Longer Life Package*.

#### ***Increasing and extending the pension Work Bonus***

From 1 July 2019, both employed and self-employed social security pensioners over age pension age and Veterans' Affairs pension recipients over qualifying age can earn up to \$300 a fortnight through work before this income is assessed by the pension income test. The

maximum Work Bonus accrual amount will also increase from \$6,500 to \$7,800.

The Work Bonus was set at \$250 when the current scheme was introduced in 2011 and has not been increased since.

Currently, around 113,000 income support recipients benefit from the Work Bonus each fortnight as the first \$250 of employment income a fortnight from working is not counted in the pension income test. The Work Bonus also only currently applies to employment income, not to income from self-employment.

### Key facts

- Overall, about 88,750 social security pensioners and 1,000 allowance recipients will receive an increase in their payments from 1 July 2019. Approximately 1,150 people will become eligible for a social security pension for the first time.
- Approximately 3,000 Veterans' Affairs pensioners will also benefit.
- Applying the Work Bonus to earnings from self-employment will benefit an estimated 21,250 social security pensioners and 200 allowance recipients each fortnight.
- For the self-employed, the average benefit equals about \$80 a fortnight. About 700 people will also become eligible for a

social security pension for the first time at an average rate of about \$130 a fortnight.

- Around 1,650 self-employed Veterans' Affairs pensioners will benefit by an average of about \$60 a fortnight.
- Increasing the Work Bonus to \$300 a fortnight will benefit about 81,500 social security pensioners and 850 allowance recipients each fortnight by an average of \$16 a fortnight. This includes about 14,000 pensioners and recipients who will become eligible for the Work Bonus through extending eligibility to earnings from self-employment. About 450 people will also become eligible for a social security pension for the first time at an average rate of about \$34 a fortnight.
- Around 1,400 Veterans' Affairs pensioners will benefit from increasing the Work Bonus by an average of about \$24 a fortnight.
- A Personal Exertion test will also apply to ensure that the Work Bonus is only available to self-employed people who earn income from an engagement in gainful work—not those who receive income through financial or real estate investment businesses.
- This measure will cost \$227.4 million over four years.

### ***Expanding the Pension Loans Scheme***

From 1 July 2019, the Pension Loans Scheme will be expanded, with the available fortnightly loan plus pension amount increasing to 150 per cent of the maximum rate of fortnightly Age Pension. The current maximum fortnightly pension amount is \$907.60.

This change will allow age pensioners to enjoy a higher standard of living in retirement by enabling them to receive additional regular fortnightly payments from the Government. The loan can be repaid, in full or part, at any time and will normally be recovered when the secured real estate asset (usually the principal home) is sold or from their estate.

This change will benefit, for the first time, pensioners of age pension age who currently receive the maximum rate and cannot access the Scheme.

It will also benefit self-funded retirees who are currently not eligible for the existing Scheme due to the pension income and assets tests.

Part-rate age pensioners and self-funded retirees with an existing loan will also benefit by being able to increase their loan up to the new amount.

## **Key facts**

- Under the current Scheme, part-rate pensioners of age pension age (and some self-funded retirees) can choose to top-up their fortnightly pension up to 100 per cent of the fortnightly maximum rate of Age Pension.
- The loan amount and associated interest accrues as a debt to the Commonwealth that is secured by real estate owned in Australia.
- The loan can be repaid, in full or part, at any time and will usually be recovered when the secured real estate is sold or from the person's estate.
- The loans are currently subject to an interest rate of 5.25 per cent.
- In December 2017, there were around 1.8 million Age Pension recipients who owned a home. This comprised around 1.1 million maximum rate age pensioners and 700,000 part-rate age pensioners.
- Around 6,000 eligible pensioners of age pension age are expected take up a loan under the Scheme over the next four years.
- This measure will cost \$11.0 million over five years.

### ***New means test rules for pooled lifetime retirement income streams***

From 1 July 2019, new means testing rules will be introduced to fairly assess pooled lifetime retirement income stream products.

This type of financial product involves a number of people's savings being pooled together. Those who contribute then receive a regular payment from the pool for the rest of their life.

The following rules will apply to these products:

- an income test that will assess a fixed 60 per cent of all product payments as income; and
- an assets test that will assess 60 per cent of the nominal purchase price until the life expectancy of a 65 year old male (currently age 84) – or a minimum of five years – and then 30 per cent for the rest of the person's life.

These rules will apply to all pooled lifetime products held by social security or Veterans' Affairs income support recipients acquired on or after 1 July 2019.

## Key facts

- Products purchased before 1 July 2019 will not be affected by these new rules.
- The rules will not change for account-based income streams, the most common retirement income product.
- This measure will cost \$20.2 million over four years.

## More information

For more information about this measure and other Department of Social Services' Budget measures, visit the [Department of Social Services](https://www.dss.gov.au) website ([dss.gov.au](https://www.dss.gov.au)).

For information about the 2018 Budget, visit the [Australian Government Budget](https://www.budget.gov.au) website ([budget.gov.au](https://www.budget.gov.au)).