Australian Government

Department of Social Services

MC15-006245

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Dear Mr Bartholomaeus

Thank you for your email of 13 May 2015 to the Prime Minister, the Hon Tony Abbott MP, about the impact on farmers of the changes to the pension assets test announced in the 2015 Budget. Your email was referred to the Minister for Social Services, the Hon Scott Morrison MP, as this matter falls within his portfolio responsibilities. The Minister has asked me to reply to you on his behalf.

The Age Pension is assessed under an income and assets test. The test that results in the lower rate of payment is the one that is applied to the pensioner. The income and assets tests are an important feature of the pension system. For most of its 100 year history, Australia's social security system has used means testing to make the system fair and properly targeted to those most in need. The tests are kept under review to ensure they are meeting the requirements of the community for well-targeted income support.

Under the pension assets test, a person's assets are assessed at their net market value, less any valid charges or encumbrances, such as a loan secured against the asset. This includes primary production assets. A person's home, together with up to 2 hectares on which it stands (providing the 2 hectares is used for private or domestic purposes), is currently exempt from the assets test.

The Government recognises the circumstances of farmers and other rural people upon their retirement. Some aspects of the current social security system that address these challenges are:

- Under the 'extended land use test', age pensioners and Carer Payment recipients of Age Pension age may have the maximum amount of land that can be exempt from the assets test increased from two hectares to encompass all land on the same title as the Age Pensioner's or carer's home. To qualify for the concessional treatment of land, carers and age pensioners must have a long-term (20-year) continuous attachment to the land and their home, and must show that they are using productive land to generate an income, given their capacity.
- Where the Age Pension is reduced, or is not payable, due to the value of their assets, the farmer can apply under the assets test hardship provisions. The hardship provisions may assist pensioners who have assets that they are unable to sell or Centrelink considers it would be unreasonable for them to sell. Hardship provisions may mean that pensioners who are in severe financial hardship are able to have certain assets disregarded when calculating their pension rate.

- The foregone wages rules may apply where an eligible descendent has worked on the farm property for less than normal wages and the property passes to them. This provision can substantially reduce the impact of the asset test deprivation provisions on farmers who transfer the farm property on to an eligible descendent. The value of the property being transferred may be reduced by an amount for past contributions, including unpaid wages.
- The aggregation rules apply where outstanding debts on farm assets (excluding the farmer's principal home and exempt adjacent land) reduces the value of those assets for social security purposes. The aggregation rules benefit farmers who hold one or more farm assets that are worth less than the outstanding debt secured against each asset.

The changes to the assets test under the Rebalance the Assets Tests Parameters measure announced in the 2015 Budget do not alter any of these arrangements. All primary production assets will continue to be assessed under the assets test. The measure changes the assets test free areas and assets test taper rates to provide additional assistance to pensioners with modest assets who are currently affected by the assets test and to reduce payments to people with significant levels of assets.

Farmers with higher levels of assets, including primary production assets, could have their pension reduced from 1 January 2017. Details about measure, including the amount of assets a person can hold before other pension is reduced or cancelled, have been included in the attached factsheet.

Where a farmer experiences a reduction in their pension under the new arrangements from 1 January 2017, they could choose to obtain additional income through the Pension Loans Scheme. Under this scheme, a person can nominate an amount up to the equivalent of the full rate of pension, with the payments accruing as a debt secured against real estate owned by the person. The debt accrues interest at a low market-related interest rate. Safeguards ensure the amount of the loan is not greater than the value of the property the loan is secured against. The scheme is voluntary and can be withdrawn from at any time. The debt is either repaid from the estate or if the property securing the loan is sold.

Farmers may find it useful to arrange an interview with a Financial Information Service officer to find out more about the assets test, including the changes to the assets test or the Pension Loans Scheme. These officers are specially trained officers who provide information about these matters. The Financial Information Service can be contacted by phoning Centrelink on 13 2300 for the cost of a local call (calls made from mobile phones may incur additional costs).

Thank you again for writing.

Yours sincerely

Andrew Whitecross

Andrew Whitecross
Branch Manager
Rates and Means testing Policy
1 June 2015