



## Means testing of FaCS income support payments

### Origins

Commonwealth income support payments have been subject to means testing ever since they were first paid in 1909. The intention has been to limit the payment of income support to people with low incomes and few assets.

Since their inception, the structure, incidence and relative generosity of means tests have varied. For the sake of clarity, this FaCS Sheet describes in general terms the situation over the period June 1990 to June 2000.<sup>1</sup> For a fuller treatment, readers are referred to relevant annual reports of the Department of Family and Community Services (FaCS) and its predecessors covering this period.

### Income test parameters

The important parameters of FaCS income tests are as follows:

- **Income.** For the purposes of income testing, income is defined as income earned, derived or received by a person for the persons' own use, or a specific benefit.<sup>2</sup> It includes earned income (such as wages) as well as unearned income (such as interest from a bank account). For the sake of simplicity, this discussion treats all income test parameters as fortnightly amounts.<sup>3</sup>
- **The maximum basic rate.** Pensions and benefits have defined maximum basic rates, which are subject to regular adjustments to account for changes to prices and, in the case of pensions, to changes in average wages since 1997. If a person's income is zero, they receive the maximum basic rate.
- **The free area.** In general, an income test allows for income up to a certain low amount to be ignored. This amount is called the 'free area' and income up to this amount does not reduce the rate of pension or benefit paid.
- **Taper rates.** Income above the free area reduces the pension or benefit at a defined rate known as the 'taper rate'. Taper rates can apply to successive parts of the range of income above the free area or to the entire range.
- **Cut-out points.** The net effect of the parameters is that higher income results in progressively less and less payment of pension or benefit, until none remains. The rate of income at which the pension or benefit is reduced to zero is called the 'cut-out' point.

Higher income results in less and less payment of pension or benefit

Selected maximum basic rates, free areas and cut-outs for June 1990 to June 2000 can be found in Table 1.

**Table 1: Selected FaCS maximum basic rates, free areas and cut-outs (\$ per fortnight), June 1990 to June 2000**

June of	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Pensions</b>											
Pension max rate standard (single)	282.40	301.60	306.10	312.10	318.10	321.60	342.60	347.80	354.60	361.40	372.00
Pension max rate married (per person)	235.40	251.50	255.30	260.30	265.50	272.00	285.80	290.10	295.80	301.60	310.50
Pension free area—standard (single)	80.00	80.00	84.00	88.00	88.00	90.00	92.00	98.00	100.00	100.00	102.00
Pension free area—married (per person)	70.00	74.00	76.00	76.00	76.00	78.00	82.00	86.00	88.00	88.00	90.00
Pension cut-out—standard	644.80	683.20	696.20	712.20	724.20	733.20	777.20	793.60	809.20	822.80	856.80
Pension cut-out—married (per person)	540.80	577.00	586.60	596.60	607.00	622.00	653.60	666.20	679.60	691.20	716.40
<b>Benefit</b>											
Benefit max rate married adult (per person, no children)	235.40	251.50	255.30	260.30	265.30	268.20	285.80	290.10	290.10	293.80	299.10
Benefit max rate single 18+, with children										352.30	358.70
Benefit max rate single 21+, no children	260.00	277.50	281.90	282.70	294.10	297.30	316.70	321.50	321.50	325.70	331.60
Benefit max rate (18 to 20, independent)	210.30	227.70	234.20	237.00	241.50	245.60	256.70	264.70	265.50	267.40	270.30
Benefit max rate (under 18—at home)	115.20	124.10	128.30	129.80	132.30	134.50	140.60	145.00	145.50	146.40	148.00
Benefit max rate student, away from home										267.40	270.30
Benefit free area	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00
Benefit free area (full-time student)										230.00	230.00
Benefit cut-out (married—per person)	335.40	351.50	355.30	360.30	365.30	368.20	491.14	497.28	497.28	502.58	510.14
Benefit cut-out single 18+, with children										586.14	595.29
Benefit cut-out (single 21+)	360.00	377.50	381.90	382.70	394.10	397.30	535.28	542.14	542.14	548.14	556.57
Benefit cut-out (single 18–20, independent)	310.30	327.70	334.20	337.00	341.50	345.60	449.58	461.00	462.14	464.86	469.00
Benefit cut-out (single 17, at home)	200.00	200.00	200.00	200.00	200.00	200.00	283.72	283.72	283.72	292.00	334.29
Benefit cut-out (full-time student)										504.30	639.00

Source: Department of Social Security (various years) 'Social Security Payment Rates' pamphlets. Centrelink (various years) 'A Guide to Commonwealth Government payments' pamphlet.

## The pension income test

For pensions, the income test comprises:

- a free area (earnings under the free area do not reduce the pension); and
- a taper range (until 30 June 2000, pension was reduced by 50 per cent of income above the free area; from 1 July 2000, the taper rate was relaxed to 40 per cent).

From 1 July 2000, the free area of pension was increased to \$106 per fortnight for singles and \$188 per fortnight for couples. The free area is indexed annually by the CPI (Consumer Price Index) and, if the pensioner has dependent children, includes an additional amount of \$24.60 per fortnight for each child (this amount is not indexed). For couples, the income test applies to their combined income.

## The benefit (or allowance) income test

The benefit (or allowance) income test shares some features of the pension income test in that both have a free area and taper ranges. However, the benefit-free area is not indexed and stayed at \$60 per fortnight from 1985 to July 2000. There is no additional free area for dependent children.

Until June 2000 pension was reduced by 50 per cent of income above the free area, from 1 July 2000 this was relaxed to 40 per cent

**Until 30 June 1995**, the benefit income test comprised:

- a free area of \$60 per fortnight (earnings under the free area do not reduce the benefit);
- a taper range (income above \$60 per fortnight but below \$140 per fortnight reduced the benefit by 50 per cent); and
- a direct deduction range (every dollar of income above \$140 reduced the benefit by a dollar).

If the recipient was partnered, the free area was doubled and the income test applied to the couple's combined income.

**From 1 July 1995**, the direct deduction range became a second taper range with the withdrawal rate set at 70 per cent. That is, income over \$140 per fortnight reduced benefit by 70 per cent of that amount. Also, from 1 July 1995 the income of partners was tested in *sequence* rather than in *combination*.

- That is, the income test applied first to the recipient's own income. If their own income was low enough for them to receive some benefit, their partner's rate was not affected.
- Income above that required to reduce the recipient's own benefit to zero (the cut-out point) then reduced their partner's *maximum basic rate* by 70 per cent of that amount (the partner excess amount).
- The benefit income test then applied to the partner's personal income.

**From 1 July 1999**, FaCS commenced paying Youth Allowance to unemployed recipients and to full-time students. The former were paid under the ordinary benefit income test described above. The test was modified for full-time students. Their income test had a free area of \$230 per fortnight, with the 50 per cent taper range for income above the free area and below \$310 per fortnight and the second taper range of 70 per cent applying to income above \$310 per fortnight.

**From 1 July 2000**, the benefit-free area was raised to \$62 per fortnight (\$236 per fortnight for full-time students) and the 50 per cent taper range extended to \$142 per fortnight (\$316 for full-time students). Also, for recipients of Parenting Payment (Partnered), the 50 per cent taper range was extended to \$245 per fortnight, after which the 70 per cent taper applied.

**The sole exception to these arrangements is Special Benefit.** Until September 1990, Special Benefit was subject to the benefit income test. From that date, the free area was abolished (that is, set at zero) and each dollar of income reduced Special Benefit by a dollar (direct deduction).

## Assets testing

The pension assets test was introduced on 21 March 1985 to operate alongside the income test. Recipients are assessed under both tests and that which produces the lower rate of pension applies. Certain assets, notably the recipient's home, are excluded.<sup>4</sup>

For every \$1 000 of assets above a threshold value, the rate of pension was reduced by \$4 per fortnight until 20 September 1993, and by three dollars per fortnight thereafter. The reduction is compared to that produced by the income test and, if it is greater, the pensioner is paid under the assets test. Otherwise, they are paid under the income test.

The thresholds are higher for couples (whose assets are assessed in combination) than for single people and higher for those who do not own homes. The threshold values are regularly adjusted in line with prices.<sup>5</sup> The combination of asset thresholds and the asset reduction rate means that assets above a certain amount (called the 'assets test limit') reduce the pension to zero.

Threshold values are regularly adjusted in line with prices

**From December 1987**, the assets test limits applied to benefits by way of a 'sudden-death' assets test—that is, those with assets above the threshold received no payment. From 1 July 1998, the 'sudden-death' assets test was extended to lone parents receiving Parenting Payment (Single). Table 2 cites assets test thresholds and limits for June 1990 to June 2000.

**Table 2: FaCS assets test thresholds and limits (\$), June 1990 to June 2000**

June of	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Homeowners</b>											
<b>Single</b>											
Threshold for full Pension	96,000	103,500	110,750	112,500	112,750	115,000	118,000	124,000	125,750	125,750	127,750
Cut-out threshold for part Pension	166,750	179,000	187,500	192,000	220,750	225,500	234,000	241,750	246,000	248,250	253,750
<b>Partnered (combined)</b>											
Threshold for full Pension	137,000	147,500	157,500	160,000	160,500	163,500	167,500	176,000	178,500	178,500	181,500
Cut-out threshold for part Pension	255,000	273,250	285,000	291,500	339,500	347,000	360,000	371,500	378,000	381,500	390,500
<b>Non-homeowners</b>											
<b>Single</b>											
Threshold for full Pension	164,500	177,500	190,250	193,000	193,250	197,000	202,000	212,500	215,750	215,750	219,250
Cut-out threshold for part Pension	235,250	253,000	267,000	272,500	301,250	307,500	318,000	330,250	336,000	338,250	345,250
<b>Partnered (combined)</b>											
Threshold for full Pension	205,500	221,500	237,000	240,500	241,000	245,500	251,500	264,500	268,500	268,500	273,000
Cut-out threshold for part Pension	323,500	347,250	364,500	372,000	420,000	429,000	444,000	460,000	468,000	471,500	482,000

Source: Department of Social Security (various years) 'Social Security Payment Rates' pamphlets. Centrelink (various years) 'A Guide to Commonwealth Government payments' pamphlet.

## NOTES

1. This overview of income and assets omits many more specific details. For instance, the discussion of income tests does not cover earnings credits (applying to most pensions from November 1987 until 30 June 1997, and to most allowances from March 1994 until 30 June 1997), earnings disregards (applying to most allowances from September 1993 until 30 June 1995), the income bank applying to Youth Allowance paid to full-time students, and the income-testing of basic Parenting Payment (Partnered) as distinct from additional Parenting Payment Partnered.
2. Income is defined in section 8(1) of the *Social Security Act 1991*.
3. The *Social Security Act 1991* includes more comprehensive definitions of income and of periods of assessment.
4. Exempt assets are defined at section 1118. (1) of the *Social Security Act 1991*.
5. The discussion of thresholds omits certain details, such as the concessional treatment of entry contributions to nursing homes that applied from March 1998.

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