



Policy costing

Pension assets test – equity for rural pensioners - reduce 20 year rule to 10 years	
Person/party requesting the costing:	Ms Cathy McGowan AO MP, Independent
Date costing completed:	4 June 2018
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>This proposal would modify the assets test rules for rural pensioners by:</p> <ul style="list-style-type: none"> • reducing the long term continuous attachment to the land requirement from 20 years to 10 years • allowing the continuous attachment to land to include ownership in addition to inhabiting the land. <p>The proposal would have effect from 1 January 2019.</p>	

Costing overview

This proposal would be expected to decrease the fiscal and underlying cash balances by \$120.0 million over the 2018-19 Budget forward estimates period. This impact entirely reflects an increase in administered expenses over this period.

The proposal would have an ongoing impact beyond the 2018-19 Budget forward estimates period. Financial implications over the period 2018-19 to 2028-29 are at [Attachment A](#).

The estimates in this costing are highly sensitive to the number of pensioners affected, and their income and asset levels. Due to a lack of available data on the number of people expected to be affected by this proposal, the Parliamentary Budget Office (PBO) has made broad assumptions about the characteristics of these people. These assumptions include how long people have had an attachment to the land, their income levels and asset values. This means that the estimates are only intended to indicate the order of magnitude of the impact for this proposal. The actual financial implications may vary significantly from the estimates should the costing assumptions diverge from their actual values. The estimates would also be sensitive to changes in economic parameters.

Table 1: Financial implications (\$m)^{(a)(b)}

	2018–19	2019–20	2020–21	2021–22	Total to 2021–22
Fiscal balance	-20.0	-30.0	-30.0	-40.0	-120.0
Underlying cash balance	-20.0	-30.0	-30.0	-40.0	-120.0

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

The PBO has made the following assumptions.

- The existing rural pensioner population that satisfy the current assets test have the same characteristics as those affected by the proposal.
- CoreLogic rural sales data for 2016-17 is representative of the average asset value for those affected by the proposal.
- 30 per cent of the affected population are retirees who own land but do not live on the land.

Methodology

The estimated financial implications were calculated by multiplying the estimated number of affected pension recipients by the average increase in their payment rate under the proposal.

- The number of affected recipients was estimated based on the existing rural pensioner population that satisfy the current assets test.
- The average rate of payment increase was calculated based on estimated rural property values.
 - CoreLogic property sales data was used to inform the average asset value for rural properties.

Departmental expense estimates were not included in this costing, consistent with the 2006-07 Budget measure *Pension asset test – changed treatment*.

Administered expense estimates were rounded to the nearest \$1 million.

Data sources

Department of Social Services provided the number of rural pensioners that satisfy the current rural pensioner assets test.

CoreLogic (RP Data Pty Ltd) provided unpublished residential property sales unit record data for the 2016-17 financial year under licence.

Australian Bureau of Statistics 2017. *Value of Principal Agricultural Commodities Produced, Australia*, 2017 Cat no. 7501.0.

Australian Bureau of Statistics 2017. *Principal Agricultural Commodities, Australia, 2017* Cat no. 7111.0.

Australian Bureau of Statistics 2016. *Agricultural Land and Water Ownership Survey, Australia, 2016* Cat no. 7127.0.

Australian Bureau of Statistics 2011. *Postcode 2012 to Remoteness Area 2011, Australia, 2011*
Cat no. 1270.0.55.006.

Rural Bank 2016. *Australian farmland values report, 2016.*

Attachment A – Pension assets test – equity for rural pensioners – reduce 20 year rule to 10 years – financial implications

Table A1: Pension assets test – equity for rural pensioners - reduce 20 year rule to 10 years – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2018– 19	2019– 20	2020– 21	2021– 22	2022– 23	2023– 24	2024– 25	2025– 26	2026– 27	2027– 28	2028– 29	Total to 2021–22	Total to 2028–29
Total administered expenses	-20.0	-30.0	-30.0	-40.0	-40.0	-40.0	-40.0	-40.0	-40.0	-40.0	-50.0	-120.0	-410.0

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.