

Committee Secretary
Joint Committee of Public Accounts and Audit
PO Box 6021
Parliament House
Canberra ACT 2600

Inquiry into the administration of the Age Pension

Thank you for the opportunity to make a submission in response to inquiry into the administration of the Age Pension.

National Seniors Australia (NSA) is the leading consumer advocacy organisation for older Australians. Through our research and advocacy activities, NSA works to improve the wellbeing of all older Australians, including pensioners, part-pensioners, self-funded retirees, veterans, and carers.

Almost 2.7 million older Australians rely on the Age Pension to provide adequate income in retirement and ensure they have the means to meet day-to-day living costs.

The objective of the recent [Australian National Audit Office \(ANAO\) report](#) into the administration of the Age Pension was to “assess the effectiveness of the Department of Social Services’ and Services Australia’s administration of the age pension.” The effective administration of the age pension is both critical to the lives of millions and to ensure government activities are cost-effective.

The ANAO report found there were deficiencies in the administration of the age pension, including \$5 billion in incorrect payments, long processing times and long waiting times for assistance.

It should be noted that the \$5 billion incorrect payment figure is the total of both \$1.33 billion in underpayments plus \$3.67 billion in overpayments over three years, compared to an age pension outlay over this period of \$165 billion, or 96.97% accuracy.

There is limited consideration of the exact cause of these payment inaccuracies in the ANAO report. Though it is noteworthy that the relevant case study (Case study 1. Superannuation excluded from age pension eligibility assessment) was the result of an internal IT error, not misreporting.

The ANAO report states that:

Services Australia collects information relevant to its engagement with age pension applicants and recipients. This information points to the needs of seniors for simpler and clearer claims processes, support with accessing digital technology and shorter wait times for claims to be completed and phone calls to be answered.

NSA welcomes such statements and calls on the federal government to make changes to simplify processes, support seniors better (although not just regarding digital technology) and reduce wait times for claims and calls.

NSA would support any measures to simplify the processes used for age pension application and ongoing reporting (to update personal and financial circumstances). This will reduce administrative burden and allow government to direct its limited resources more effectively.

As past NSA research into [seniors views of Centrelink](#) has shown, interactions with Centrelink represent a key frustration of older people.¹

Survey respondents dissatisfied with the Centrelink experience (42.5%) ascribed this to the complicated forms and processes and long wait times. Respondents who had a positive Centrelink experience (38.5%) attributed this to the “helpfulness” of Centrelink staff.

Importantly, NSA’s past research found respondents who used the Centrelink online application process, were dissatisfied and found access hard, despite this being designed to make the process easier and more efficient.

Legislative change needed

In focusing on Services Australia’s administrative processes, the report neglects the elephant in the room – the complex nature of social security law in Australia and its direct impacts on administrative processes.

NSA believes the complex legislative frameworks, namely the Social Security Act 1991, which governs age pension eligibility, contribute significantly to administrative complexity and burden.

However, policy settings are overlooked when assessing system effectiveness because they are seen as non-negotiable. This is disappointing because social security legislation is strongly implicated in system inefficiency. Legislation is critical because it governs and restricts the actions of the bureaucracy when attempting to refine or improve administrative processes.

NSA believes that any inquiry into the administration of the age pension should include analysis of the impact of legislation on effective and efficient administrative processes.

¹ [The Centrelink Experience: From ‘waiting, frustrating, hopeless’ to ‘helpful, friendly, positive’ | NSA](#)

Remove the income test

For example, the requirement to assess both income and assets when determining age pension eligibility complicates the processes used to assess a customer's entitlement. While the means test exists to restrict eligibility to those who need support and, as such, reduce expenditure, it is unduly complicated. This results in excessive reporting and complex compliance processes that increase costs to government and frustration for customers.

It needn't be so complicated.

The age pension means test within the Social Security Act 1991, clearly views wealth as a proxy for means. This is reflected in the deeming rules which use asset values to determine income.

The advent and growth of superannuation serve to reinforce the importance of wealth to deliver income in retirement. However, social security legislation continues to include both assets and income in its method for determining both eligibility and payment rate.

It would be far simpler to remove considerations of income from the means test and focus on assets / wealth as the determinant of eligibility and payment rate.

This would reduce the amount of information that customers need to supply to Centrelink when applying for the pension and when updating their financial circumstances.

While this might result in changes to eligibility for low-wealth customers whose payment rate is determined by the income test, the presence of the assets test (properly calibrated) would ensure that payments were appropriate to means. Any concerns about people concealing wealth to secure payment could be addressed by reviewing tax laws and compliance systems.

Let Pensioners Work

At the very least, the federal government should consider altering legislation to exempt employment income from the income test, as NSA has long recommended as part of its [Let Pensioners Work](#) campaign.

This would significantly reduce the reporting burden for almost a hundred thousand pensioners who currently work and the many more who do not currently work (or who work in the black economy). Most fear the impact on their pension, because they find the system too complicated or because they do not want the risk of overpayment and debt.

This change would avoid issues of under and overpayment as it would focus on assets as the key determinant of a customer's pension entitlement, encouraging pensioners to remain in the workforce. The harsher assets test would ensure that those with higher wealth would not receive additional benefit, ensuring only those with limited wealth (those who need and want to work)

would benefit. This would give pensioners with limited wealth a more dignified retirement and result in less interactions with Services Australia and Centrelink – reducing administrative burden.

The benefit for government is a significant reduction in administrative costs and a reduction in errors associated with ongoing reporting of income – this includes the cost of having customers interact with Centrelink on the phone, in person and online.

Unfortunately, these kinds of changes are not likely considered in this inquiry. But they should.

Full pension triage

Other innovations that could reduce administrative burden, which rely on legislative changes, involve changing the way that applications for the pension are processed.

Currently, every applicant must fill out the full – 28 page – application form. However, a simpler triage approach, that identified those with limited wealth as not needing to go through a full application, could simplify reporting and administration for individuals and Services Australia.

This process would reduce the burden on a large cohort of customers, reducing the likelihood that they would need to contact Centrelink for assistance. This would free up resources for customers who had more complex claims (generally those with more complicated financial situations) who need to supply greater evidence of their financial affairs.

Customers identified as eligible for the full pension early in the application process could be approved for the pension and given a timeframe to supply eligibility evidence.

Services Australia could institute a risk management system that included regular correspondence to remind these customers to report circumstance changes and random compliance checks applied to a sample based on a risk rating.

Customers could be given a risk rating based on information gathered in the initial application / triage process. The risk rating could be informed by the inclusion of questions e.g., asking if a customer expects to receive an inheritance in the future, this customer could be flagged as higher risk of circumstance change and overpayment.

However, this requires a fundamental change to age pension legislation that goes beyond the scope of the inquiry.

Simplification first

The complex nature of age pension application processes, a function of the legislative framework, undermines any moves towards simplicity. Yet, that should be a primary goal.

As the ANAO found, the rules are so complex they are even “difficult for staff and applicants to understand”. Even the Services Australia IT systems were making incorrect assessments due to the handling of superannuation details. This suggests a simpler set of rules should make for an easier system for customers and administrators.

Unfortunately, some of the recommendations of the ANAO report may increase complexity and compliance costs.

Recommendation 5 of the ANAO report, argues that “Services Australia develops and implements an approach to verify applicants’ assets and income to reduce risks to the correctness of age pension claims assessments.”

This does not provide for any legislative change to streamline and reduce information flows between customers and Centrelink. If anything, it may add additional layers of compliance and checking that will ultimately create a more complex age pension system.

This does not mean that NSA disagrees with the recommendations in the ANAO report.

For example, NSA supports the ANAO recommendation to improve debt letters by including information specifying the rationale and basis for the decision. This will give older people greater understanding of why a debt has been incurred so that they can address any problem regarding the reporting of their income or assets.

What concerns us, is that the introduction of process changes to improve compliance, in the absence of legislative change to simplify age pension rules, will mean greater complexity and cost to government.

We implore the federal government to consider making changes to legislation to reduce complexity and enable streamlining of age pension application and compliance processes.

Yours sincerely



Chris Grice

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