DEFENCE FORCE WELFARE ASSOCIATION

Patron in Chief: His Excellency General the Honourable Sir Peter Cosgrove AC MC (Retd)

BUDGET SUMMARY 2014

Government Budget Strategy

The Government states that its 2014-15 Budget reins in wasteful spending, improves the sustainability of the social safety net and encourages greater personal responsibility. The Government is asking all Australians to make a contribution to repair the budget and refocus government spending on those areas of the economy that will drive economic growth and safeguard our future prosperity. This Budget is designed to deliver medium-term structural budget reform by ensuring government spending is on a manageable trajectory, providing a credible path to a projected surplus and ensuring Australia's medium-term fiscal sustainability.

The deficits inherited from the former Government that were outlined in the 2013-14 MYEFO for the four years to 2016-17 totalled $123 billion. In the four years to 2017-18, deficits are estimated to total just $60 billion — an improvement of $43.8 billion over these four years compared with the 2013-14 MYEFO. Savings decisions begin to have an impact from 2014-15 where government spending is redirected from recurrent expenditure to productive investments in infrastructure. A significant contribution to this improvement in the bottom line is in 2017-18 where a $25.6 billion improvement to the deficit includes hard decisions taken to deliver $20.3 billion of savings from payments. The Government maintains these decisions are needed to ensure the sustainability of the budget position in the medium term, reducing the average real growth in payments to 2.7 per cent from an unsustainable 3.7 per cent at the 2013-14 MYEFO. Current medium-term projections indicate a return to surplus by the end of the decade. Importantly the Government says there is much work still to be done to improve on that position.

Impact Summary

From low income earners to high income earners, from the young to the old, everyone is potentially impacted by the 2014 Budget. A new temporary budget repair levy will apply at the rate of 2% to taxable income over $180,000, and will be in place for three years from 1 July 2014. If you don’t have an income at this level, you could still be impacted by the proposed removal of the Dependent Spouse Tax Offset and the Mature Age Worker Tax Offset from 1 July

2014. There has been a freeze imposed on many thresholds that apply to social security payments and also other tax related items. They take effect at different times and have different durations, but there are impacts to the Medicare Levy Surcharge, Private Health Insurance Rebates, Family Tax Benefits and virtually all Centrelink and many DVA payments.

This is a short summary compiled from the Budget Papers, DVA's Budget Presentation, and analysis from industry, commercial and community organisations' reports with the emphasis on those decisions that affect defence families. The full budget can be viewed at: http://www.budget.gov.au/2014-15/index.htm

Persons requiring specific details related to their personal circumstances should contact their financial adviser, DVA Case Officer or the nearest DVA Office.

DFWA and its ADSO partners will continue to engage the Government and the Parliament on those matters that require clarification and further consideration. Refer to ADSO's Goals here: http://standto.org/fg-indexation/373-adso-s-2014-priorities-goals

Budget Items

1. **Fuel prices to rise.**

From 1 August 2014 the fuel levy will be subject to indexation twice a year.

2. **Co-payments for GP visits.**

From 1 July 2015 patients can expect to pay $7 GP consultations, as well as out-of-hospital pathology and imaging services.

Concessional patients, for example those who hold a Pension Concession Card, will only pay the $7 for the first 10 combined services they use in each calendar year. The 10 services can consist of any combination of standard GP visits, pathology or imaging.

Those who have special health needs, such as those with Health Assessments or those on Chronic Disease Management programs, will be exempt from the patient contribution.

For every $7 patient contribution, $5 will be invested in the new Medical Research Future Fund. This $5 will come from the Government reducing the Medicare Benefits Schedule (MBS) rebates provided to GPs for standard consultations, as well as pathology and imaging, by $5. The other $2 will go to the healthcare provider.

Providers will still have discretion over whether to charge the $7, but if they choose not to collect the patient contribution they will not receive the Low Gap Incentives from the Government for that consultation.

States and Territories will also be able to introduce patient contributions in hospitals for GP equivalent visits to emergency departments.

How will this affect you?

Example - A Pension Concession Card holder visits the doctor 12 times in one calendar year. He or she will pay a total of $70 - $7 per visit for the first 10 visits, and nothing for the final two.

Non-concessional patients can expect to see their Medicare rebates for GP visits reduced by $5, all of which will be invested in the Medical Research Future Fund.

Note that DVA Gold and White treatment card holders do not pay the co-payment. The DVA fee will continue as the full payment to the provider with no additional charge to the cardholder.

3. **Removal of Dependant Spouse Tax Offset**

Effective 1 July 2014, the Dependant Spouse Tax Offset (DSTO) and the Mature Age Workers Tax Offset (MAWTO) will be abolished The DSTO is currently income tested and only available where, amongst other things, your adjusted taxable income is below $150,000. For the year ended 30 June 2013, the maximum DSTO was $2,423**.**

4. **Family Tax Benefit changes**

The Government has proposed a number of changes around Family Tax Benefits, including:

   a. maintaining the 1 July 2014 maximum and base rates of Family Tax Benefit (FTB) Part A and the rate of FTB Part B for two years. These payment rates would resume indexation on 1 July 2016.
   b. tightening eligibility around the number of children that can increase the upper threshold for payments of FTB Part A from 1 July 2015.
   c. reducing the primary earner income limit from the current $150,000 per annum to $100,000 per annum from 1 July 2015.

5. **Changes to pensions - Pension indexation.**

From 1 July 2017, MTAWE and the PBLCI will no longer be used in the indexation of Age Pension, Service Pension, and Disability Support Pension. Indexation changes will align pension indexation with those for other social security payments. The change will flow through to affect the rate of Income Support Supplement, DVA Veteran Disability Pension, War Widow(er) Pension and equivalent MRCA payments. Over the previous four years to March 2014, Age Pension, Service Pension and Disability Support Pensions' benchmarking to MTAWE has resulted in pension payments over that period totalling $2000 more than they would have been if linked only to CPI.

Note that this change does not apply to DFRB/DFRDB superannuation indexation payments.

6. **Changes to pensions - Asset and income test thresholds.**

   From 1 July 2017 for a period of three years, the indexation of asset and income thresholds will be fixed. This means that increases in income and assets of an individual or couple over these three years could result in a reduction of the Age Pension, Carer Payment, Service Pension or Disability Support Pension. The family home, if a principal place of residence, will not be included in the pension asset test.

7. **Changes to pensions - Deeming thresholds.** For the purposes of the pension income test, the Government will change how it deems the return from a person's financial assets. From September 2017, the deeming thresholds will be reset from $46,600 to $30,000 for singles and from $77,400 to $50,000 for couples. This essentially means that income above such thresholds will attract the higher deeming rate, which is currently 3.5 per cent. Indexation of the reset amounts will commence on 1 July 2020.

8. **Changes to pensions - Clean Energy Supplement**. While it remains the Government's intention to abolish the carbon tax, it has committed to maintaining the Clean Energy Supplement, which will now be called the Energy Supplement, at current levels. It will remain a static amount as of 1 July 2014.

9. **Changes to pensions - Commonwealth Seniors Health Cards.** From September 2014 the Commonwealth Seniors Health Cards (CSHC) will be indexed. While this may assist more self-funded retirees to become eligible for a CSHC, the payment of the annual Seniors Supplement will cease after this year's payment in June. The Seniors Supplement is currently $876.20 for singles and $1320.80 for couples combined, per annum.
   Note: The Seniors' Supplement is paid only to CSH card holders and is NOT the same as the Pension Supplement which is paid to those who are eligible for a pension.

10. **Changes to pensions - Increase in the Age Pension eligibility age.** The age at which Australians will be able to claim the Age Pension will rise to 70 by 2035. This is an extension of the previous Government's raising of the eligibility age to 67. Eligibility age will now be as detailed in the table below:

People born between	**Eligible for the Age Pension at age**
1 July 1952 and 31 December 1953	65.5
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66.5
1 January 1957 and 30 June 1958	67
1 July 1958 and 31 December 1959	67.5
1 January 1960 and 30 June 1961	68
1 July 1961 and 31 December 1962	68.5
1 January 1963 and 30 June 1964	69
1 July 1964 and 31 December 1965	69.5
1 January 1966 and later	70

11. **Increased Pharmaceutical Benefits Scheme (PBS) co-payments**

From 1 January 2015 the Government will increase the co-payments**.**

	Concessional patients	Standard patient
Current co-payment rates	$6	$36.90
New co-payment rates from 1 Jan 2015	$6.90	$42.70

* *Veterans eligible for the Veterans Pharmaceutical Reimbursement Scheme will be reimbursed the additional costs.*

The PBS Safety Net protects patients who need to purchase a high number of prescriptions each year. Once patients reach a set threshold, standard patients pay the reduced concessional rate, and concessional patients receive their prescriptions for free.

Currently, the PBS Safety Net threshold for standard patients is set to become $1452.50 in 2015. The Government plans to increase this to $1597.80, meaning standard patients will need to pay an extra $145.30 more to reach the PBS Safety Net threshold. This threshold will continue to increase by 10 per cent above inflation each year for a further three years.

The PBS Safety Net threshold for concessional patients will be 60 prescriptions in 2015. Under new arrangements this will be increased to 62 prescriptions in 2015, with a two-prescription increase each year for a further three years. This means that in 2015 a concessional patient will have to pay $61.80 more to reach the safety net.

12. **Medicare threshold changes**

Currently there are multiple Medicare safety nets for out-of-hospital services. These will be amalgamated into the creatively named [Medicare Safety Net](), with updated thresholds for patients. Individuals will not need to register for the Medicare Safety Net, but families will need to register to combine medical expenses for all family members, even if all family members are on one Medicare card.

Changes to the thresholds:

	Threshold in 2016 under current system	Threshold in 2016 under new system
Concessional patients	$654.30	$400
Family Tax benefit Part A family	$654.30	$700
General single	$2050	$700
General family	$2050	$1000

Once the Medicare Safety Net threshold has been reached in a calendar year, all further out-of-hospital claims will attract a higher benefit, as the Government will contribute more towards out-of-pocket costs.

13. **Veterans' Disability Pensions – Commencement of payments from date of claim.**

On or after 1 January 2015 there will be no backdating of Disability Pension claims other than for War Widow(er) claims. This restores the equity between Disability Pension compensation and income support payments under the Veterans' Entitlements Act and permanent impairment payments under the Military Compensation and Rehabilitation Act which has no backdating provisions.

14. **Veterans' Incapacity Payments – Review by Medical Specialist after 12 months.**

DVA clients who have been in continuous receipt of incapacity payments for 12 months or more under either the *Safety Rehabilitation and Compensation Act 1988* or the *Military Rehabilitation and Compensation Act 2004* will undergo a specialist review to confirm that their service related condition continues to impact their ability to work. Entitlements to permanent impairment payments will not be affected by the reviews.

15. **Military Superannuation – DFRB/DFRDB**

From 1 July 2014, DFRB and DFRDB superannuation scheme members aged 55 and over will have their superannuation benefits indexed by the better of the Consumer Price Index and the Pensioner and Beneficiary Living Cost Index, with reference also to a benchmark level of Male Total Average Weekly Earnings.

Additionally, the Government will exempt DFRB and DFRDB members from any Division 293 tax liability for the one-off increase in the capitalised value of the benefit arising from the new indexation arrangements. Division 293 tax is imposed under the *Income Tax Assessment Act 1997* on concessional contributions made by individuals whose income and relevant concessionally taxed contributions exceed $300,000. This measure delivers on the Government's election commitment.

Note that DFRB/DFRDB superannuation indexation payments are not affected by the Government decision to change the Age Pension and Service Pension indexation (see para 3 above).

16. **Military Superannuation – New Accumulation Scheme – ADF Super - MSBS**

From 1 July 2016, the Government will establish a modern fully funded accumulation superannuation scheme for new members of the Australian Defence Force (ADF).

The existing Military Superannuation and Benefits Scheme (MSBS) will be closed to new members from this date. Existing MSBS members who leave and then rejoin the ADF are able to rejoin their existing MSBS arrangements. There will be no change to the superannuation arrangements for existing MSBS members, but they may elect to be covered by the new arrangements.

Under the new arrangements, the Government will pay a 15.4 per cent contribution to a member's chosen superannuation fund. The contribution rate will increase to 18 per cent for any period in which members are serving in war-like operations.

Serving ADF personnel covered by the new arrangements will also be covered by statutory death and disability arrangements consistent with the defined benefit arrangement currently in place under the MSBS. At this stage it is unclear whether discharged members of MSBS with preserved " employer funds" will be able to roll these over to an accredited fund of their choice.

The new arrangements will be more flexible than the MSBS, as members will be able to transfer superannuation benefits to a fund of their choice.

ADSO Leaders will begin detailed discussions on the proposed scheme in the near future. See more details here: http://standto.org/fg-indexation/399-minister-for-finance-and-minister-for-defence-new-military-superannuation-scheme-arrangements