Budget 2018

FACT SHEET 3.3

More Choices for a Longer Life Package

Expansion of the Pension Loans Scheme

The Government will extend eligibility for the Pension Loans Scheme to all Australians of Age Pension age, allowing them to improve their income in retirement.

Some older Australians, particularly maximum rate pensioners who own their own home, may have most of their wealth tied up in the family home.

Currently, the Government offers a reverse mortgage through the Pension Loans Scheme (PLS) to part and some nil rate pensioners to allow them to 'top up' their Age Pension to the maximum rate. This provides an option for Australians to supplement their income. However, maximum rate age pensioners and self funded retirees are currently excluded from the PLS.

Extending Eligibility to the Pension Loans Scheme

From 1 July 2019, the Government will:

- expand eligibility of the Pension Loans Scheme (PLS) to all Australians of Age Pension age including maximum rate age pensioners; and
- increase the maximum allowable combined Age Pension and PLS income stream to 150 per cent of the Age Pension rate.

Full rate pensioners will be able to increase their income by up to $11,799 (singles) or $17,787 (couples) per year by unlocking the equity in their home. PLS participants have the flexibility to start or stop receiving PLS payments as their personal circumstances change, and generally repay the loan once their home is sold.

Existing age-based loan to value ratio limits will continue to apply. This means that PLS holders will not be able to owe the Government more than what their home is worth. The current PLS interest rate of 5.25 per cent per annum will apply to existing and new loans. This has been the rate since 1997.

The measure will better target the PLS to those who would benefit the most and give older Australians more choice to draw on the equity in their homes to support their standard of living in retirement.

Currently, there are around 1.8 million age pensioners who own their own home, including 1.1 million maximum rate age pensioners and 700,000 part rate age pensioners.

This measure is expected to cost $11 million over the forward estimates.

Full rate single pensioner with $400,000 property

Janet is a 70 year old single maximum rate age pensioner with a house valued at $400,000. Her Age Pension income is currently $908 per fortnight ($23,598 per year). Under the expanded PLS, Janet is now able to access some of the value in her home.

Janet chooses to receive an additional income stream of around $6,000 in the first year. Her income increases to $1,135 per fortnight ($29,497 per year), 125 per cent of the maximum rate of the Age Pension. The value of the income stream increases over time in line with the indexation of the pension.

Janet continues to draw down a PLS income stream for 20 years at an interest rate of 5.25 per cent. Janet passes away at age 90. Her family sell her house for $750,000. The PLS loan owed to the Government has increased to around $300,000, which is paid from the house sale proceeds. Around $450,000 remains in her estate. Over the 20 years, Janet receives around $170,000 in additional income to support her standard of living in retirement.

Full rate pensioner couple with $850,000 property

Bob and Sue are a 70 year old maximum rate pensioner couple, with a house valued at $850,000. Their combined Age Pension income is currently $1,368.20 per fortnight ($35,573 per year).

Under the expanded PLS, Bob and Sue are now able to access some of the value in their home. They choose to receive $2,052 per fortnight ($53,360 per year), the full amount of 150 per cent of the maximum rate of the Age Pension. The value of the income stream increases over time in line with pension indexation.

Over the next 20 years, Bob and Sue receive a PLS income stream at an interest rate of 5.25 per cent. After 20 years, Bob and Sue sell the house for $1.6 million. While the balance of the PLS loan owed to the Government has grown to around $900,000, Bob and Sue pay out this balance from the sale proceeds and retain $700,000.

Over the 20 years, Bob and Sue receive around $500,000 in additional income to support their standard of living in retirement.

Questions and answers

Q. How does a PLS reverse mortgage work?

Under the PLS, you can choose to receive regular fortnightly payments to supplement your income. These payments are drawn down from the equity you hold in your home and accumulate as a debt to the Government which includes interest. Repayments of the loan generally occur from the sale proceeds once the house is sold, however you can choose to repay at any time.

Q. What is the maximum I can borrow?

While the overall maximum you can receive is 150 per cent of the maximum rate of the Age Pension, your actual limit will depend on your age, how long you intend to receive payments, whether you are single or partnered, the value of your home and how much Age Pension you receive. This protects you to ensure you don’t have to pay back more than your home is worth.

Q. Would my PLS be taxed or means tested?

Income streams from the PLS are non-taxable and generally not means tested. The only exception is in the unlikely event that you save PLS payments, rather than spending them, the saved amount could then be means tested.