Quarterly Newsletter – September 2014

Changes to Pension Deeming Rates

In late November 2013, the newly elected coalition government introduced legislation into parliament that changes the deeming rules for the Age Pension income test. The changes became law on 31 March 2014. They will apply from 1 January 2015.

Currently, superannuation pensions are counted against the Age Pension income test through a special calculation that recognises the return of capital that forms part of every super pension payment. This is because the account balance of the super pension is also counted against the Age Pension assets test.

This special treatment will no longer apply, with the income stream payments to be deemed in the same way as other assets from 1 January 2015.

The following is a summary of the how superannuation pensions will be affected by the Age Pension income test from 1 January 2015:

- Individuals already receiving the Age Pension as at 1 January 2015, will continue to be tested under the previous rules, that is, pension income will be adjusted by a deductible amount before including 'income' for the purposes of the Age Pension income test
- If an individual changes their superannuation pension product on or after 1 January 2015, then the income from the new pension will be subject to the new deeming rules rather than the previous income treatment.
- If an individual commutes their superannuation pension on or after 1 January 2015, then the previous income test rules will cease to apply and the deeming rules will apply instead.
- If you're not receiving the Age Pension as at 1 January 2015, then your super pension will be subject to the new deeming rules.
- According to the explanatory memorandum, the extension of the deeming rules applies to "any asset-tested income stream (long term) that is an account-based pension, or an equivalent annuity product.

Who will this impact and how can you prepare?

When applying for the Age Pension (and other income support payments) applicants are subject to an assets test and an income test, with the test that produces the lowest pension payment being the applicable test for their benefit.

The current asset test limits are generous, allowing up to $1,292,000 of financial assets for couples and $918,200 for singles. The majority of fully retired people will be tested under the assets test. This generous treatment means that the average retiree will have access to some kind of government pension benefit, even if this amount is negligible.

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The income test is a far less generous test. In extending the deeming rules to superannuation based pensions, the government is increasing the likelihood that the income test will be the selected test. This will likely result in a reduction in pension amount for people who have superannuation based pensions that commence under the new regime.

These changes will have the greatest impact on those who are working part-time in retirement and receiving an age pension in combination with a superannuation transition to retirement arrangement.

You should assess your likelihood of claiming Centrelink support in retirement, and determine if it is appropriate for you to commence an account based pension before the changes are implemented at the end of the year.

If you would like to discuss any matters relating to these newsletters or require specific advice on any of the above, then please contact myself or Daniel on (03) 8825 5500 or via email adviser@chartertowers.com.au

Sincerely,

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