

TECHNICAL ISSUES – Age pension changes from 01/01/2015



"...and this is the day room. Of course, everyone's out at work at the moment..."

Centrelink Deeming Changes from 1 January 2015

You may wish to consider the following changes that will affect income streams, to lock in access to some valuable Centrelink and tax benefits before 31 December 2014.

From 1 January 2015 the calculation for assessing the age pension amount you will receive will change.

Currently, super pension payments for age pension purposes are treated differently to other types of income because some of that pension payment is considered a return of capital; which means that Centrelink doesn't double count the drawing down of pension assets as income. This means Superannuation pensions get largely ignored (due to a fixed 'deductible amount') and many people on small to medium balances collect both a super pension and a part aged pension. Under new laws this will change, with the deductible amount provisions being withdrawn and the deeming rules extending to super account balances.

What happens to income stream accounts started before 1 January 2015?

Account-based income streams in place before this date will continue to be assessed as they are now, providing the individual is also in receipt of an Income Support payment prior to 1 January 2015. However, if a recipient chooses to change their product or to start a new income stream after 1 January 2015, they will then be assessed under the new rules.

Who will this not affect?

When accessing eligibility for Centrelink benefits, the Social Security Act applies both the income and asset tests, using the test that provides the lower Aged Pension benefit. People whose asset tests provide the lower Age Pension benefits will be unaffected by the deeming provisions for the income test.

The following example is based on Sophie, a 65 year old single woman who owns her own home and is considering setting up a \$200,000 or a \$500,000 income stream. Sophie has no other assets.

The following table compares the Aged Pension outcomes for Sophie using the current deeming rules against the new deeming rules from 1 January 2015.

	Example 1 - \$200,000 income stream		Example 2 - \$500,000 income stream	
	31 December 2014	1 January 2015	31 December 2014	1 January 2015
Date income stream started	31 December 2014	1 January 2015	31 December 2014	1 January 2015
Minimum payment	\$10,000	\$10,000	\$25,000	\$25,000
Deductible amount	\$9,250	N/A	\$23,130	N/A
Deemed income	N/A	\$6,280	N/A	\$16,801
Income tested amount per annum	\$750	\$6,280	\$1,870	\$16,780
Income test Age Pension reduction	Nil	\$40.77 per fortnight	Nil	\$242.69 per fortnight
Asset test Age Pension reduction	Nil	Nil	\$447.00 per fortnight	\$447.00 per fortnight

Effect of change	Nil	Age pension would be reduced by \$40.77 per fortnight	Age pension would not be affected by the new rules. Both before and after the new rules the age pension would be reduced by \$447.00 per fortnight under the assets test.
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Source: Financial Planning Association of Australia (adjusted for changed thresholds on 1 July 2014). This example is illustrative only and based on the figures used. The outcome may be different depending on your personal circumstances.

On a \$200,000 income stream, Sophie can expect to receive \$40.77 less per fortnight from the Age Pension if the income stream is started on 1 January 2015. This example also demonstrates that the new deeming rules will have greater effect on those with smaller balances.

Already have an income stream or plan to start one before 1 January 2015?

If you currently, or plan to, receive an Income Support payment before 1 January 2015 now is a good time to consider your options. This may include combining multiple superannuation fund accounts into a single income stream to start a new income stream before this change takes effect.

Even if you currently have an income stream in place, changes to this income stream on or after 1 January 2015 will mean that you will be assessed under the new deeming rules.

Need some expert advice?

If you are looking to start an income stream Nash Solutions will talk you through the process and benefits, and can help you set up a tax-effective income stream suited to your personal situation.

Comprehensive advice is available if your situation requires broader consideration of your financial circumstances.