

**SPECIAL TOPIC – Pension Bonus late registrations to cease March 2014**



**Contributed by Suzanne McCarthy, Financial Planning Client Services Manager**

The Minister recently announced late registrations for the Pension Bonus Scheme (PBS) will end from 1 March 2014. Late registrations were only accepted in special circumstances and clients had to have reached age pension age before 20 September 2009.

**How does the PBS work?**

The PBS was designed to encourage age pensioners to stay in the workforce and delay claiming the age-pension. The PBS provides a one-off tax free lump sum payment of up to \$46,130 for singles or \$34,882 each for members of a couple.

From 20 September 2009 the PBS was closed to new entrants and replaced by a work bonus.

To register for the PBS clients generally had to register within 13 weeks of reaching age pension age. However, Centrelink or the Dept. Veteran Affairs could allow late registrations in special circumstances such as where the client was overseas, lived in a remote area, had low levels of literacy or did not understand that they needed to register for the scheme.

**Eligibility for the PBS**

The PBS is available to self-employed as well as salaried employees. The amount of lump sum paid is based on the length of time a client defers claiming the Age Pension and the amount of Age Pension they receive on commencement.

To be eligible for the PBS clients must:

- Reach age pension age before 20 September 2009;
- Register for the PBS;
- Defer claiming the age pension;
- Undertake gainful employment for a minimum of 960 hours per year;
- Accrue at least one 365 day bonus period;
- Keep a written record of employment.

Where a couple registers for the PBS, only one partner is required to meet the work test.

### **Who benefits from the PBS?**

Clients with high employment income are generally the winners from the PBS.

High income earners would receive little or no pension if they were to claim the age pension whilst working, however they may receive a substantial pension bonus based on the number of years they delay claiming and their rate of age pension when they do eventually claim. If they have ceased employment or otherwise reduced their employment income by the time they claim the age pension their pension bonus can be substantially increased.

The situation is less clear for clients on lower levels of income such as casual or part time employees. Clients on lower incomes may be better off ceasing registration of the PBS by claiming the age pension and having their employment income reduced by the work bonus. The work bonus not only increases their age pension under the income test but also increases their entitlement to the pension bonus as the amount of bonus is based on their rate of age pension.

### **How does the work bonus work?**

The work bonus allows for up to \$250 gross of employment income per fortnight to be disregarded under the income test for pensioners of age pension age.

The work bonus applies individually to each eligible member of a couple. That is, if each member of a couple over pension age receives employment income, each will be eligible for a work bonus of up to \$250 per fortnight.

Where the recipient uses only a portion of the \$250 work bonus or does not use it at all, the unused work bonus is credited to an income concessional bank. Pensioners can accrue a maximum amount of \$6,500 to offset against future employment income. The income concession bank can assist clients with one-off or irregular employment income.

### **Eligibility for the work bonus**

The work bonus applies automatically to pensioners over age pension age; there is no reason to register.

However, pensioners receiving a transitional rate of pension are not eligible. Transitional rate pensioners were receiving a higher rate of pension under the pre 20 September 2009 rules when the income test taper was 40 cents rather than 50 cents. Centrelink will automatically calculate their rate under the transitional and new rules (including the work bonus) and as soon as the new rules produce a higher rate of pension they will be swapped to the new rules.

**Who benefits from the work bonus?**

The work bonus benefits clients receiving employment income.

The definition of employment income is remuneration received from an employee/employer relationship. Employment income includes director’s fees, as well as leave payments such as annual and long service leave received whilst still employed.

The work bonus disregards up to \$6,500 per annum therefore clients on lower incomes may be better off claiming the age pension rather than delaying payment and receiving a pension bonus.

<b>PBS VS WORK BONUS</b>	
<b>PBS</b>	<b>Work Bonus</b>
Must register for the scheme	Automatically applied if entitled
Must be over age pension age at 20 September 2009	Applies to pensioners over age pension age
Available to employed and self employed	Available to employees only
Work test of 960 hours per annum	Based on employment income received
Ideally suited to high income earners where the rate of age pension would be reduced or precluded	Disregards up to \$250 per fortnight of employment income
Provides a tax free lump sum upon claiming the age pension	Reduces assessable employment income resulting in a higher pension under the income test

**Which is better?**

A straight forward answer is not always possible. A comparison needs to be made in each case as to which scheme produces the higher benefit as it depends on a number of factors such as:

- Level of employment income;
- Intention to continue working after claiming the age pension;
- Rate of age pension payable once they claim the age pension;
- Number of years they have delayed claiming pension;
- Whether they are self-employed or a transitional pensioner;
- If they are members of a couple, whether one or both are working.

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