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Case Study

Deeming of Account Based
Pensions and the Impact to
the Age Pension

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Deeming of Account Based Pensions and the Impact to the Age Pension

As you may be aware, when determining a person's Age Pension entitlements, Centrelink apply two tests – an Asset Test and an Income Test. In true government style, the test that produces the lowest entitlement dictates how much Age Pension a person will receive.

On 1 January 2015, a legislated change in the assessment of a person's superannuation Account Based Pension (ABP) under the Income Test, came into effect. No change was made to the assessment of ABPs under the Asset Test.

This legislated change affected all ABPs that commenced on, or after 1 January 2015, or if the person was not receiving an income support payment (such as an Age Pension) from Centrelink, prior to that date. So for anyone applying for Age Pension Benefits or commencing an ABP, on or after 1st January 2015, then the total value of their ABP will be deemed for the Centrelink Asset Test. This meant that for all ABPs, that did not qualify under these two points, Centrelink determined the amount of income received (for the purposes of the Income Test), by 'deeming' the total value of the ABP.

Fortunately, for people who held ABPs prior to 1 January 2015 and were receiving an income support payment from Centrelink (such as the Age Pension), their ABP is 'grandfathered', and hence not subject to the new deeming rules.

Prior to 1 January 2015, when Centrelink assessed the amount of income that a person received from an ABP, only the amount of income that was over an ABPs 'deductible (or non-assessable) amount' was counted as 'income' under Income Test. For example, if a person had an ABP valued at \$300,000 and the deductible amount was \$20,000 and the amount of income that a person received from their ABP was \$25,000, then only \$5,000 was counted as income under Centrelink's Income Test. Conversely, if the same person received \$18,000 from their ABP, then no income was counted under Centrelink's Income Test.

However, after 1 January 2015, should a person lose their Age Pension Benefits (for any reason), then the ABPs income assessment under the 'grandfathering' rules is lost. When this person re-qualifies for an income support payment, such as the Age Pension, then the ABP is assessed under the new 'deeming' rules, for the purpose of determining their entitlements. Take the same person, with an ABP valued at \$300,000. Under the current deeming rates for a pensioner couple, (being the first \$79,600 has a deeming rate of 1.75% and anything above \$79,600 has a deeming rate of 3.25%), the amount of income determined by Centrelink under these new rules is \$8,556.

The new Income assessment rules of ABPs can have a detrimental impact to a person's assessment in their Age Pension entitlements under the Income Test. An example of the impact to a person's Age Pension entitlements is shown in the case study below.

Case Study – Andrew and Mary

Meet Andrew and Mary. Andrew is 66, retired and receives \$242 per fortnight in Age Pension. Mary is 62, is working and given her age is not eligible for the Age Pension, or any other government income support payment.

Andrew and Mary's Current Situation

As at 1 January 2015, Andrew and Mary have the following Assets and Income:

	Assessable Assets	Assessable Income (p.a.)
Personal Effects	\$20,000.00	N/A
Cash	\$10,000.00	\$4,656.00
Shares	\$50,000.00	
Mary's ABP	\$120,000.00	
Andrew's ABP	\$450,000.00	\$-
Mary's Employment Income	N/A	\$40,000.00
Total	\$650,000.00	\$44,656.00

As Mary is under Age Pension age and does not receive any government income support payment, the value of her ABP is deemed. Deeming is also applied to Andrew and Mary's personal Cash Accounts and Shares.

In comparison, as Andrew was receiving an Age Pension payment prior to 1 January 2015, his ABP is 'grandfathered' and continues to be assessed under the previous assessment rules. As Andrew receives an income from his ABP, which is under the 'deductible amount', no income is counted by Centrelink, when determining his Age Pension entitlements.

Based on the above Assets and Income, Andrew is assessed as having the following Age Pension entitlements under both tests. As the Income Test produces the lower of the two tests, Andrew's Age Pension entitlements will be based on this test:

	Assessable Test	Income Test
Andrew's Age Pension Entitlement (p.f.)	\$376.00	\$290.00
Resulting Entitlement	Income Test	

What if Mary decides to increase her working hours...

One day, Mary works some extra shifts at work, while a colleague is on leave. Andrew and Mary diligently report Mary's change in employment income to Centrelink.

However, as Centrelink Age Pension entitlements are assessed on a fortnightly basis, Centrelink assess the increase in Mary's employment income from that week, as a projection of her annual income.

As shown, this change in Mary's employment income, increases their assessed income above the upper limit for the income test, which means that Andrew loses all of his Centrelink Age Pension income.

	Assessable Assets	Assessable Income (p.a.)
Personal Effects	\$20,000.00	N/A
Cash	\$10,000.00	
Shares	\$50,000.00	\$4,656.00
Mary's ABP	\$120,000.00	
Andrew's ABP	\$450,000.00	\$-
Mary's Employment Income	N/A	\$72,000.00
Total	\$650,000.00	\$76,656.00
	Assets Test	Income Test
Andrew's Age Pension Entitlement (p.f.)	\$376.00	\$-
Resulting Entitlement	Income Test	

Mary's working hours go back to normal...

Mary's work hours then return back to normal and Andrew and Mary again report Mary's change in employment income to Centrelink.

However, as Andrew had lost his Age Pension entitlement for a period of time, his ABP becomes assessed under the 'deeming' rules.

This in turn, impacts the level of 'assessable income' under Centrelink Age Pension assessments, as shown in the following table:

	Assessable Assets	Assessable Income (p.a.)
Personal Effects	\$20,000.00	N/A
Cash	\$10,000.00	
Shares	\$50,000.00	\$19,281.00
Mary's ABP	\$120,000.00	
Andrew's ABP	\$450,000.00	\$-
Mary's Employment Income	N/A	\$40,000.00
Total	\$650,000.00	\$59,281.00
	Assets Test	Income Test
Andrew's Age Pension Entitlement (p.f.)	\$376.00	\$149.00
Resulting Entitlement	Income Test	

This change results in a decrease of Andrew's Age Pension payments by \$141 a fortnight, or \$3,656 a year.

Take away points

It is important to be conscious of any change to your situation, which may impact your Age Pension entitlements.

As shown, the loss of Age Pension, even for a single fortnight, changes the way in which a person's ABP is assessed by Centrelink. Just one payment that is over the threshold that results in the loss of Age Pension is enough to lose the more favorable assessment of an ABP.

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