Take Control - With Your Independent Financial Adviser

Snapshot

Plan ahead for super pension changes

The goal posts are about to shift for self-funded retirees, with changes to the way income from superannuation pensions is means tested. The result could be that fewer in the future will qualify for a part-age pension or the Commonwealth Seniors Health Card.

Currently, the full value of an account-based super pension is not counted in the income test to determine eligibility for the age pension. The amount received is reduced by its deductible amount, which is calculated by dividing the account balance at the start (less lump sum withdrawals) by the member's life expectancy.

By comparison, other financial assets such as bank accounts and shares are 'deemed' to earn a certain amount of income that is assessed under the income test, regardless of how much they actually earned .

But from January 1, 2015 income from super pensions will also be deemed, putting it on a level footing with assets held outside super.

As the new rules will only apply to pensions commenced on or after that date, retirees with an account- based super pension in place prior to January 1 may keep their current entitlements.

Current deeming rates and proposed changes

The current deeming rates for a single retiree are two per cent for the first $48,000 of a pension account balance and 3.5 per cent for the remainder. For couples the threshold amount is $79,600.[i]

From 20 September 2017, it is proposed that the deeming thresholds for means-tested payments be lowered to $30,000 income for singles and $50,000 for couples.[ii] This will make it even harder to qualify for a full or part pension under the income test.

Accessing the health card

Eligibility for the highly-prized Commonwealth Seniors Health Card is also about to be tightened. The health card provides access to benefits potentially worth thousands

of dollars a year, including pharmaceutical discounts and travel concessions.

There is no asset test for the health card but there is an income test. An individual must have adjusted taxable income of less than $50,000 and a couple less than $80,000.[iii] Because account-based super pensions are tax-free they currently do not get counted. But it is proposed that this will change on January 1 when deemed income from account-based pensions will be included in the income test for the health card.

Who is affected?

The new rules are grandfathered, which means anyone who already has a super pension on January 1, 2015 and either a part age pension or the health card will not be affected.

So if you turn 65 before January 1 you could start a pension and qualify for the health card under the old rules. But if you turn 65 on or after that date you will be assessed under the new rules.

However, even if you have a pension in place on January 1 and then stop and re-start for any reason, your eligibility for the part-age pension or the health card will be reassessed under the less generous deeming rate system. This could happen if you fail to pay the minimum pension amount for the year or commute a pension to add extra money under a re-contribution strategy.

Time to plan

The good news is you still have time to put planning strategies in place to safeguard current entitlements.

For example, if you still have money in an accumulation fund you might consider moving it into a pension now. And if you want your partner to continue receiving a part pension or the health card after your death you may need to have an automatic reversionary pension in place at the commencement of the pension.

Don't hesitate to give us a call if you would like to review your pension and income stream ahead of the changes.

i Australian Government, Dept of Human Services, http://www.humanservices.gov.au/customer/enablers/deeming

ii 'Planning for the pension changes' by Bruce Brammell, Eureka Report 19 May 2014

iii As above

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