Deeming Account Based Pensions

Setting the scene

Income received from a superannuation "account based" or "allocated" pension is often favourably assessed under the income test used by Centrelink and the Department of Veterans Affairs to determine a person's entitlement to government income support benefits. Such benefits might include the Age Pension, Disability Support Pension, Newstart Allowance, and the like. This means that a person currently receiving income support benefits may often be able to draw a reasonably significant amount of income from their account based pension without it having a detrimental effect on their government income benefit.

Legislation was passed in March 2014 that changed the way in which account based pensions are assessed for income test purposes. The change took effect from 31 December 2014. Account based pensions were brought into line with other "financial Investments".

There are two groups of people who are affected by this change:

1. People who commenced receiving government income support benefits after 31 December 2014, whether or not they had an account based pension is place before January 2015; and
2. Those receiving government income support benefits before 1 January 2015, and they transfer their existing account based pension to a new superannuation provider, or commence a new account based pension after 31 December 2014.

Those people receiving income support as at 31 December 2014 and had an account based pension in place as at that date, will not be affected by the changes unless:

- Their income support benefit ceases for any reason, and is then recommenced, or
- they change pension providers, or
- stop and recommence an account based pension with their current provider.

There are no changes currently being made to the way the assets test applies to account based pensions.

Financial investment

Financial investments include money on deposit with banks, building societies, and credit unions, shares, managed funds and unit trusts, and money held in superannuation funds by a person of age pension age, where they have not yet commenced an account based pension.

When applying the income test, Centrelink or Department of Veterans Affairs will total up the value of a person's financial investments and then "deem" an amount of income to be applied to those investments. The deeming rates change from time to time and are reflective of current interest rates. There are two deeming rates that apply depending on the amount of a person's financial investments. The current deeming rates[1] are:

Status	Deeming Threshold	Deeming rate	
		Below Threshold	Above Threshold
Single	$53,000	0.25%	2.25%
Couple – combined	$88,000		

[1] Effective from 1 July 2020

Put simply, a pensioner couple have financial investments of $100,000, their deemed income, for income test purposes will be:

Financial Investments	Deeming Rate	Deemed Income
$88,000	0.25%	$220.00
$12,000	2.25%	$270.00
Total Deemed Income		**$490.00 ($18.84 per fortnight)**

Deemed income is used when applying the income test. The actual income earned on financial investments, whether it is above or below the deemed income, is ignored when assessing eligibility for income support benefits.

However, income received from an account based pension is currently assessed on different basis.

Income assessment of account based pensions

When an account based pension commences, the amount of capital used to commence the pension is divided by the life expectancy of the pension recipient (or the longer of the two pension recipient's life expectancies, where a reversionary pensioner is nominated). The resultant amount is referred to as the "deductible amount". This amount remains constant for the life of the account based pension unless a lump sum withdrawal is made from the pension account, at which time the deductible amount is recalculated.

The amount of account based pension income currently assessed under the income test is the actual income drawn from the account based pension, after subtracting the deductible amount.

Let's further consider the example of our pensioner couple mentioned previously. They also have an account based pension with a value at commencement of (say) $150,000. For the sake of the example we will assume the account based pension is held in the name of the wife who is 65. Her husband is 67. Her life expectancy is 21.62 years, and his is 16.99 years[2]. In this example, it is irrelevant whether the husband was nominated as a reversionary pensioner or not, as his life expectancy is the lesser of the two. The deductible amount, in this example, is $6,938 ($150,000 ÷ 21.62). If this couple were to draw $7,500 income from their account based pension, only $562 of that will be counted under the income test ($7,500 - $6,938).

If we now extrapolate the income assessable under the income test for our pensioner couple, their assessable income under the income test will be:

Type of Income	Assessable Income
Financial Investments	$790.00
Account based Pension	$562.00
Total Assessable Income	**$1,352.00 ($52.00 per fortnight)**

Applying the January 2015 rule

If our pensioner couple were:

- not to commence receiving their age pension until after 31 December 2014; or
- to move their existing account based pension from one pension provider to another after that date; or
- to stop their existing account based pension, perhaps to add more superannuation savings, and then start a new account based pension after 31 December 2014;

[2] Based on Australian Life Tables, 2005 - 2007

Then their new account based pension will be treated as a financial investment and will be subject to deeming. If this were to occur, their financial investments will now total $250,000 and their deemed income will now be:

Financial Investments	Deeming Rate	Deemed Income
$88,000	0.25%	$220.00
$162,000	2.25%	$3,645.00
Total Deemed Income		**$3,865.00 ($148.65 per fortnight)**

Based on deemed income of $148.65 per fortnight, this couples assessable income is still below the income free amount available under the income test, so their pension is unaffected, based on current deeming rates. However, as deeming rates increase over time, and given that they are currently at historically low level, this couple may see a reduction in the amount of age pension they receive in the future.

Grandfathering

When legislation to have account based pensions included as financial investments for deeming purposes was enacted, the income test treatment of existing account based pensions was grandfathered. That is, provided the following conditions are met, the former income test treatment of account based pensions (i.e. actual income received, less the deductible amount) will continue to apply.

To qualify for the grandfathering the pension receiving government income support must:

1. Be in receipt of a continuous government income support benefit as at 31 December 2014; and
2. Be receiving income payments from a continuing account based pension as at 31 December 2014.

Where a person holding a grandfathered account based pension passes away, and their account based pension was structured to automatically revert (transfer) on their death to a surviving spouse, then the original account based pension will continue to be grandfathered provided the reversionary pensioner was also in receipt of a government income support benefit at the time the pension transferred.

Conclusion

Whether a person will better or worse off under the changes to income testing of account based pensions will depend on personal circumstances. For example, anyone drawing an account based income stream that is significantly more than their deductible amount may actually benefit by having their account based pension treated as a financial investment and be subject to deeming.

In addition to the income test, government income support entitlements may also be affected by the assets test. The test that results in the lower income support benefit is the test that is used. We have not taken the potential assets test implications into account for the purposes of this review.