Deeming of 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.

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 came into effect from 31 December 2014 that changed the way account-based pensions are assessed.

Two groups are affected:

1. People who started receiving government income support benefits after 31 December 2014, whether or not they had an account-based pension in 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.

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 started 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 Couple – combined	$51,800 $86,200	0.25%	2.25%

[1] Effective from 1 May 2020

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

Financial Investments	Deeming Rate	Deemed Income
$86,200	0.25%	$215.50
$13,800	2.25%	$310.50
Total Deemed Income		**$526 ($20.23 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 a different basis.

Income assessment of account-based pensions

The amount of the pension (also called the 'deductible amount') is calculated when payments start. The amount stays constant for the life of the pension unless a lump sum withdrawal is made from the pension account, at which time the deductible amount is recalculated.

Here's another example of our pensioner couple. 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]. The higher life expectancy is generally used. 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 calculate income assessable under the income test for our couple, we see:

Type of Income	Assessable Income
Financial Investments	$526
Account-based Pension	$562
Total Assessable Income	**$1,088($41.85 per fortnight)**

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

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;

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
$86,200	0.25%	$215.50
$163,800	2.25%	$3,685.50
Total Deemed Income		**$3,901($150.04 per fortnight)**

Grandfathering

When the 2014 legislation was enacted, the income test treatment of existing account-based pensions was grandfathered (uses the former income test treatment), as long as you meet certain conditions.

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 getting a government income support benefit at the time the pension transferred.

Conclusion

Whether a person will be 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.

Superior Alliance can help you work through your personal circumstances – everyone is different!

We want you to make the most of your income, so if we can help, please call us to discuss your situation.