

Deeming of ABPs: impact and opportunities

From 1 January 2015 the assessment of income from some account based pensions for social security purposes will change. For some people, there will be no change to their assessment. For others, the changes may impact the amount of benefits received now, or in the future. We examine the change in more detail to help you understand whether or not you may be impacted.

Q: How do Centrelink and the Department of Veterans' Affairs (DVA) currently assess account based pensions for the purpose of the income test?

For the income test, the amount included is your nominated income stream payment less the 'deduction amount'. The deduction amount is an annual 'income-free' amount which applies to assets-tested account-based income streams. The 'deduction amount' is determined by a number of factors, such as your original pension account value, any lump sum payments made to you on top of your regular pension payments, and your life expectancy at the time you started the pension.

Generally speaking, only the actual annual income drawn in excess of your 'deduction amount' is captured for Centrelink assessment. Therefore, if your actual annual income payments are less than your 'deduction amount', your account based pension will not have an impact on the income test.

Q: If I am not eligible for an income support payment or won't be commencing an account based pension until after 1 January 2015, how will the new rules impact me?

When you become eligible for an income support payment, or commence an account based pension after 1 January 2015, the 'deeming rules' will apply for the income test rather than the 'deduction amount' to determine your income for Centrelink/DVA purposes.

'Deeming' means that Centrelink will 'assume' a set level of income is paid to you from your pension, regardless of what you are drawing per annum. This means that the 'income' for Centrelink/DVA purposes could be more or less than the income payments you actually receive from your account based pension.

Deeming applies to 'financial investments' which includes bank accounts, term deposits and shares.

As at 1 July 2014, the deeming rates and thresholds are:

Deeming Rates	Single	Couple
2%	First \$48,000 of financial investments	First \$79,600 of financial investments
3.5%	Above \$48,000	Above \$79,600

Q: Will these changes impact Centrelink and DVA income support recipients?

Yes, this new income-test will be applied by both Centrelink and DVA. It will alter the income test assessment for people receiving an 'income support payment'. An income support payment includes:

- Newstart Allowance
- Partner Allowance
- Parenting Payments
- Parenting Allowance
- Age Pension
- Disability Support Pension
- Wife Pension
- Carer Payment

You may also be impacted if you receive a Low Income Health Care Card and have commenced an account based pension.¹

Q: So, if I have an existing account based pension and I am receiving an income support payment as at 1 January 2015, how will I be assessed?

If you:

- have commenced an account based pension before 1 January 2015, and
- are receiving an income support payment from Centrelink as at 1 January 2015,

you will be eligible for the 'grandfathering rules'. That is, you will continue to be assessed under the pre-1 January 2015 rules (ie nominated income stream payment less deduction amount).

Q: If I am eligible for the 'grandfathering', does this mean that the new rules will never affect me and my income-support assessment?

No, this does not guarantee that you will not become subject to the new rules in the future.

There are a number of 'trigger events' which could result in your account based pension being assessed under the deeming rules. Therefore, it is very important that before you make any changes to your investments or financial circumstances, that you contact your financial adviser to understand what the impact will be on your Centrelink/DVA position.

These 'trigger events' include, but are not limited to:

- becoming ineligible for income support payment for a period, and regaining entitlement in the future
- switching from one account based pension product to another
- consolidating a range of account based pension and superannuation accounts,
- the account based pension owner passes away

¹ The Government is also proposing to change the way account based pensions are assessed for eligibility of the Commonwealth Seniors Health Card. You should speak to your financial adviser to understand these changes.