Hawthorn Financial Planning

New Centrelink rules:
affecting Government age pensions and other benefits

On 1 January 2015, Centrelink income test rules are changing to be less favourable for account- based pensions. However, clients who receive a Centrelink benefit and have an allocated or account-based pension in place before then will maintain their current favourable income test treatment.

Do you need to take action now?

If you are over 55 and potentially eligible for a Centrelink benefit, you need to read this. You may need to take action.

- New rules are coming on 1 January 2015 that could reduce your Centrelink benefits. These rules change the way that superannuation-based pensions will affect entitlements to Centrelink benefits that are subject to an income test (such as the age pension).
- The new rules will only affect those who start receiving their Centrelink benefits after 1 January 2015, or who start or change their superannuation-based pensions after that date.
- If you may be eligible for both a Centrelink benefit and a superannuation-based pension next year, you may need to take action this year to maximise your Centrelink benefits in the future. It's important to consider your own situation before you decide what to do.
- Your financial adviser can give you a personalised recommendation to help you consider whether to:
  - Start a new superannuation-based pension now; or
  - Make changes to an existing superannuation-based pension before the deadline; or
  - Apply for Centrelink entitlements that you are not receiving.

These things take time, so it's important you act now

New Centrelink rules: affecting Government age pensions and other benefits continued

Will the changes reduce the amount you receive?

From 1 January 2015 new Centrelink rules could affect your government age pension entitlements for the rest of your life. It pays to be aware that if you receive a government age pension and set up or make changes to an account-based pension after 1 January 2015, you may be worse off. Use the time before the end of this year to work out whether reviewing or setting-up an account-based pension before 1 January 2015 will help you—and put your plan in place.

What will the changes mean for you?

All account-based pensions - including allocated pensions—set-up after 1 January 2015 will be assessed the same way as other financial assets. So if you're receiving a government age pension it may be reduced as a result. This also applies to those account-based pensions set up before this date that are not eligible to preserve the old rules.

If you're eligible, it's not too late to set up an account-based pension before 1 January 2015 under the current rules. In fact, doing so may preserve your government age pension entitlements.

Are you eligible?

If you have money in super but you haven't set up an account-based pension yet, you may be able to preserve or maybe even increase your government pension entitlements if you are:

- Aged over 65 at 31 December 2014
- Receiving a government age pension by 1 January 2015.

What if you make changes to your existing account-based pension?

Any changes you make to your account-based pension after 1 January 2015 could make your account-based pension assessable under the new rules—for example, if you:

- Change your account-based pension provider;
- Combine multiple account-based pensions or consolidate super into your account-based pensions;
- Add or remove a reversionary beneficiary (a person you have nominated to receive your pension income when you die);
- Cease receipt of a government payment Start a death benefit pension for anyone other than a reversionary beneficiary.

It's important to speak with your financial adviser about whether setting up or reviewing your account-based pension now will help you preserve any age pension entitlements you may have. Now might also be a good time to review your estate plan.

Example

Let's take a look at Jane and Michael's situation.

If Jane and Michael, both aged 65, retired with a combined super fund balance of $273,000 and minimal other assets, they would currently be entitled to a full Government age pension under the assets test, and if they start an account-based pension prior to 1 January 2015, they would also be entitled to the full Government age pension under the income test (depending on level of income drawings).

If they transferred the $273,000 to an account-based pension after 1 January 2015, then deemed income of $8,361 pa would be counted towards their income test, which would reduce their combined age pension by about $19 per fortnight ($494 pa). At current levels of 2% and 3.5%, deeming rates are comparatively low. In the event that the deeming rate increased to, say, 6% pa, their age pension would be reduced by a total of $173 per fortnight ($4,498 pa).

If they transferred the $273,000 to an account-based pension before 1 January 2015, they could draw an annual income of up to $20,011 before their age pension would reduce under the income test (assuming Jane is an automatic reversionary on Michael's account-based pension).

What you need to know

The above example is illustrative only and is not an estimate of the investment returns you will receive or fees and costs you will incur. This example is based on the following assumptions (a) Rates used are valid up to 30 June 2015 (includes maximum pension supplement and clean energy supplement).
(b) No other income or assets have been factored into the calculation (e.g. lifestyle assets and/or any other investments).
(c) Deeming rates are 2% up to $79,600 for a couple, and 3.5% for amounts above this figure.

This article contains information that is general in nature. It does not take into account the objectives, financial situation or needs of any particular person. You need to consider your financial situation and needs before making any decisions based on this information.

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