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THE AGE PENSION OVER THE YEARS

Ling Wang

Introduction

The Australian government has provided income support to eligible retirees since 1909. This has been achieved mainly through the provision of the Age Pension and several supplementary benefits. Over the years, there have been many changes to the rules governing the provision of these payments. In the last three years alone, the Government has proposed significant changes to social security law that are designed to impact those receiving, or seeking to qualify for, the Age Pension. Some of the changes have been implemented, while a few have not progressed. This has contributed to some confusion about what has changed, what will not change and what may change. This article seeks to clarify the progress of changes put forward during the past five years.

Age Pension payment rates and eligibility conditions

Before discussing how the Age Pension has changed, it is useful to begin with some basic information about the Age Pension. There are two different Age Pension payment rates to cater for two household types. In addition to the basic Age Pension, two supplementary payments are available to help retirees meet their costs of living.

The current maximum Age Pension payment rates are as follows.

Table 1. Age Pension payment rates

Per fortnight	Single or couple living apart due to ill health	Couple each
Maximum basic rate	$808.30	$609.30
Maximum Pension Supplement	$65.90	$49.70
Energy Supplement	$14.10	$10.60
TOTAL	**$888.30**	**$669.60**

To qualify for the Age Pension, an individual must have reached Age Pension age and meet residency requirements. Currently, a person who is already 65.5 years of age has reached Age Pension age. However, the Age Pension age in the future could be as high as 67 years old, as an individual's Age Pension age is determined by their date of birth. Table 2, below, sets out the Age Pension age based on date of birth.

Table 2. Age Pension age

Birthdate	Age Pension age
1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	66 years and 6 months
From 1 January 1957	67 years

As well as reaching Age Pension age, an individual must also meet residency rules. The residency rules require that the individual claims the Age Pension in Australia, and must have been an Australian resident for at least a total of ten years, with five of those ten years being continuous. Some people are exempted from the residency rules, for example, a refugee or a former refugee. A former resident of a country that has a social security agreement with Australia could also qualify under the residency rules of that agreement. For example, under the social security agreement between Ireland and Australia, Irish periods of Pay Related Social Insurance can be counted towards helping meet Australian residence requirements.

Means Testing

In addition to eligibility requirements, means testing applies when determining the Age Pension payment amount. This has been the case since the introduction of the Old-Aged Pension in 1909 and continues today, but means testing has changed frequently over the years. Some of the more extreme changes included:

- the total removal of means testing in 1978 for the Age Pension
- the removal of the assets test in 1976, until a new assets test was re-established in 1985.

The numerous changes reflect differing government policies as well as other changes, such as, the introduction of deeming to simplify the assessment of investments, which became increasingly difficult to assess on an individual basis because of financial innovation. Changes to means testing are expected to continue to occur in the future as governments amend their policies regarding the Age Pension.

Major changes passed in the last three years

During the last three years, the following changes have been passed by both houses of Parliament:

- Deeming of superannuation account-based income streams from 1 January 2015.
- Changes to income tests of concession cards from 1 January 2015.
- Aligning aged care means testing of the former home from 1 January 2016.
- Rebalancing of the assets test from 1 January 2017.

Deeming of superannuation account-based income streams from 1 January 2015

From 1 January 2015, superannuation account-based income streams will be deemed under the income test. Deeming involves applying a set income rate to calculate the amount of assessable income from certain assets and ignores the actual income earned by those investments. Superannuation account-based income streams commenced prior to 1 January 2015 held by those in continuous receipt of the Age Pension before 1 January 2015 will be protected from the deeming rules and will be assessed under the old rules. The difference between deeming and the old rules of assessing superannuation account based income streams is that deemed income is calculated and assessed on the value of the income stream, whereas under the old rules a portion of the income is not assessed. The following example illustrates this difference.

Example one – Deeming versus deductible amount

Jenny is 78 years old and has a superannuation account-based pension valued at $195,000. She chooses to receive the minimum from this account-based pension, which is $11,700 per year. Jenny commenced this account-based pension in 2014 with a starting amount of $210,000. As Jenny was aged 77 at the time, the account-based pension will have a relevant number of 12.33 . Under the old rules, assessable income of the account-based pension is calculated as shown below:

Assessable income = annual payment – (purchase price/relevant number)

= $11,700 – ($210,000 / 12.33)
= $11,700 - $17,031
= Nil (as the deductible amount is more than the annual payment)

In comparison, if deeming applies to the superannuation account-based pension, the deemed income is calculated as shown below:

Deemed income = first $49,200 deemed at 1.75% per year and excess over $49,200 deemed at 3.25% per year

= ($49,200 x 1.75%) + (($195,000 - $49,200) x 3.25%)
= $861 + $4,739
= $5,600

As shown in Example one, the outcome could be quite different and ensuring superannuation account-based income streams are 'grandfathered' from deeming could be advantageous. This could be achieved by ensuring that:

- the client does not change to a new account-based income stream, for example by changing pension providers or refreshing the pension
- the client does not lose their entitlement to the Age Pension after 31 December 2014.

Changes to income tests for concession cards from 1 January 2015

The introduction of deeming to superannuation account-based income streams also affects income tests for concession cards that use the same definition of income as the Age Pension. This includes income tests applying to the Low Income Health Care Card (LIHCC). Entitlement to the Pensioner Concession Card (PCC) is tied to qualification for a social security pension payment, such as the Age Pension, so deeming changes indirectly affect eligibility to the PCC. That is, if the deeming changes reduces the Age Pension payment rate to zero, the pensioner will also lose their entitlement to the PCC. On the other hand, the Commonwealth Seniors Health Card (CSHC) originally used a different income test to that applying to the LIHCC and the PCC. Prior to 1 January 2015, changes to the assessment of superannuation account-based income streams meant only adjusted taxable income was assessed for the CSHC. From 1 January 2015 however, the CSHC income test was also amended to add deemed income of superannuation account-based income streams to adjusted taxable income in assessable income. Pensioners who held a CSHC card prior to 1 January 2015 will not have the new income rules apply to their card.

Aligning aged care means testing of the former home from 1 January 2016

From 1 January 2016, the Government removed the generous treatment of rental income from the former home belonging to a pensioner who has since moved to a residential aged care facility.Before the change, rental income generated by leasing out a former home was exempt from income assessment for Age Pension purposes, provided that the pensioner was paying part or all of their aged care accommodation costs periodically . This treatment contradicted how that rental income was assessed when calculating aged care fees. Removal of the rental income exemption means that assessment for Aged Pension purposes is in line with income assessment for calculating aged care fees so rental income is now assessable.

Grandfathering provisions apply if the pensioner entered the residential aged care facility before 1 January 2016.

Rebalancing the assets test

From 1 January 2017, new asset free limits and a higher tapering rate will apply when working out how much Age Pension will be paid to an eligible pensioner. Asset free limits refer to the amount of assessable assets a pensioner is allowed to own before tapering applies to their Age Pension payment rate.

The new asset free limits are shown in table 3.

Table 3. Asset free limits

Household type	Homeowners	Non-homeowners
Single	$250,000	$450,000
Member of a couple, combined	$375,000	$575,000
Member of a couple separated by illness, combined	$375,000	$575,000
One partner eligible, combined	$375,000	$575,000

Once the assessable assets of a pensioner exceed the applicable limit, every $1,000 of excess assets will reduce their fortnightly Age Pension by three dollars. This tapering rate is now twice the level it was before 1 January 2017, as previously, the reduction per fortnight was $1.50 for every $1,000 in excess of the asset free limit. The new asset free limits (which are actually higher), combined with a more severe tapering rate effectively reduce the asset limit at which the rate of Age Pension reaches zero.

Table 4. Asset limits reducing Age Pension rate to zero

Household type	From 20 March 2017		Pre 1 January 2017	
	Homeowners	Non-homeowners	Homeowners	Non-homeowners
Single	$546,250	$746,250	$793,750	$945,250
In a couple, combined	$821,500	$1,021,500	$1,178,500	$1,330,000
Illness separated couple, combined	$967,500	$1,167,500	$1,466,000	$1,617,500
One partner eligible, combined	$821,500	$1,021,500	$1,178,500	$1,330,000

Proposed changes that are no longer going ahead

The Government has announced that it will no longer proceed with a couple of the proposed changes, namely:

- Moving overseas and reduction of Age Pension payment rate - tightening proportionality requirements.
- Three-year trial to encourage older Australians to downsize their home.

Moving overseas and reduction of Age Pension payment rate after 26 weeks – tightening proportionality requirements

When a pensioner leaves Australia, they are allowed to receive the Age Pension overseas. For some Australians, after 26 weeks of departure from Australia, their Age Pension rate will be reduced if they lived in Australia for less than 35 years. Their Age Pension payment will be 'proportionalised,' in other words reduced, to reflect their Australian residence between the ages of 16 and their Age Pension age. In the 2015-16 Federal Budget, the Government proposed to reduce this rate after six weeks instead of 26 weeks of departure. However, in the most recent Budget handed down on 9 May 2017, the Government has decided not to proceed with this change.

Three-year trial to encourage older Australians to downsize their home

In the 2013-14 Federal Budget, the Government proposed to introduce a three-year pilot program called 'Housing Help for Seniors'. The objective of this program was to encourage Australians in receipt of the Age Pension to move to housing that would be more suitable for their retirement and ageing needs. Under the trial scheme, at least 80 per cent of the proceeds from the sale of the family home, up to a value of $200,000, would be exempt from Age Pension means testing, provided that:

- the home has been owned for at least 25 years
- the amount is deposited in a special account at an authorised deposit-taking institution
- the pensioner moves to a retirement village or a granny flat – but moving to residential aged care would not qualify for the means testing exemption.

The pilot scheme was introduced by the Labor Government, but after the election of a Coalition government it was announced in the 2014-15 Federal Budget that the pilot scheme would not proceed. It appears that the Budget announcement on 9 May 2017 also included a proposal to encourage senior Australians to downsize their principal residence. This proposal involves allowing a person aged 65 years or older to make a one-off non-concessional contribution of up to $300,000 to their superannuation using the proceeds from the sale of the principal residence, but with the contribution exempted from the work test, non-concessional contributions cap and total superannuation balance rules. The residence must have been owned for the past ten years. However, one notable difference is that the amount contributed will not be exempt from means testing. The new proposal is intended to start from 1 July 2018.

Changes on the horizon

Other recent measures contained in the May 2017 Federal Budget include:

- Tightening residency requirements from 1 July 2018 – the Government proposed to amend residency requirements to the following:
  - Ten continuous years of Australian residence, five of which must be during their Australian working life (between ages 16 to Age Pension age).
  - Ten continuous years of Australian residence and proof that no activity tested income support has been received for cumulative periods of five years or more.
  - Fifteen continuous years of Australian residence.
- Reinstatement of the Pensioner Concession Card (PCC) that was lost due to asset test changes apply-

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Changes to means testing are expected to continue to occur in the future as governments amend their policies regarding the Age Pension.

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Keeping track of all these changes will remain a key challenge for financial advisers.

ing from 1 January 2017. Standard rules to qualify for the PCC require being eligible for at least a dollar of the Age Pension. Asset test changes applying from 1 January 2017 could cause some people to have their Age Pension payment reduced to zero and consequently lose their entitlement to the PCC. The Government announced in the 2017-18 Federal Budget that they intend to reinstate the PCC for pensioners affected by assets test changes on 1 January 2017. At the time of writing, no further information is available regarding this proposed change, however, it is expected that information will be coming in the near future to allow for the reinstatement to commence in the 2017-18 financial year.

The Government may consider proceeding with the proposal to increase the Age Pension age to 70 years old for those born after 30 June 1958 from 1 July 2025. This was also a change originally proposed in the 2014-15 Federal Budget which never progressed beyond a Budget announcement. The Government has not yet formally announced that the measure will not proceed.

Summary

The Age Pension has existed nationally since 1909 and since then many changes have occurred, reflecting government policy at the time. During the past three years, significant changes have been made to reduce the number of people receiving the Age Pension as well as the amounts payable. In the future, it appears that the Government plans to continue its 'scalpel approach' by changing residency requirements and perhaps eventually increasing the qualifying pension age. Keeping track of all these changes will remain a key challenge for financial advisers. **FS**

This is general advice only and does not take into account your financial circumstances, needs and objectives. Before making any decision based on this document, you should assess your own circumstances or seek advice from a financial adviser.

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