

understanding the age pension

INTRODUCTION

Centrelink, formerly known as the Department of Social Security, is the Government agency that administers Australia's social security system.

Centrelink assesses an individual's entitlement to a number of social security payments including the Age Pension.

The Age Pension is a type of social security benefit paid by Centrelink to provide older Australians with a minimum level of income. Whilst this payment is still a key source of income for many retired Australians, the extent of this dependence is declining as Government policy shifts towards encouraging individuals to fund their own retirement.

To qualify for the Age Pension, a person must amongst other conditions, be an Australian resident for at least 10 years. If you have lived overseas for a certain period of time and there is an equivalent pension in that country, you may be required to apply for that pension overseas. If you are required to apply for an overseas pension, Centrelink will obtain the required documentation and liaise with the foreign social security office until your claim is finalised.

MEANS TESTING

Individuals who are eligible to apply for the Age Pension are assessed against an Income Test and an Assets Test. These tests vary depending on marital and homeowner status (see Table 1).

The current maximum pension payment (including pension supplement) for singles is \$748.80 per fortnight while

the maximum couple rate is \$1,129.00 per fortnight combined.

Under the Assets Test, for every \$1,000 that you are above the relevant lower threshold, the fortnightly pension reduces by \$1.50. Under the income test, each dollar above the relevant lower threshold reduces the fortnightly pension entitlement by 50 cents.

The Assets and Income Tests are assessed separately and the one which produces the lower entitlement will apply.

CASE STUDY

Samantha is a single homeowner aged 65 applying for the Age Pension. For Centrelink purposes, her assessable assets are valued at \$700,000 (excluding her home), while her annual assessable income totals \$20,000.

Under the income test, Samantha is eligible for a part Age Pension as her annual income is between the lower and upper income threshold. However, because her assets exceed the maximum amount of \$686,000 for a single homeowner, her entitlement is zero under the Assets Test.

In Samantha's case, the Assets Test would apply and she would not receive an Age Pension. If Samantha's assessable assets totaled \$500,000 instead, her assets, while above the lower threshold of \$181,750, are below the upper threshold of \$686,000. Accordingly, she would be entitled to a part Age Pension based on the test that produces the lower Age Pension entitlement.

WHAT IS THE AGE PENSION AGE?

Age Pension age refers to the age at which an individual is eligible to apply for the Age Pension. For males this is age 65, but for females this varies depending on their date of birth.

The Age Pension age for females was previously age 60, however this is progressively being increased to 65 (refer table 2). For example, a female born on 15 February 1946, would have an Age Pension age of 64. Upon reaching this age, she would then be eligible to apply for the Age Pension (see Table 2).

Table 2: Age Pension Age

Date of Birth	Age Pension Age
1/1/43 to 30/6/44	63
1/7/44 – 31/12/45	63.5
1/1/46 – 30/6/47	64
1/7/47 – 31/12/48	64.5
1/1/49 Onwards	65

Table 1: Income and Assets Test for the Age Pension

Assets Test	SINGLE		COUPLE (COMBINED)	
	Homeowner	Non-Homeowner	Homeowner	Non-Homeowner
Full Payment	Below \$181,750	Below \$313,250	Below \$258,000	Below \$389,500
Part Payment	Up to \$686,000	Up to \$821,000	Up to \$1,018,000	Up to \$1,153,000
Income Test				
Full Payment	Below \$3,796 pa	Below \$3,796 pa	Below \$6,656 pa	Below \$6,656 pa
Part Payment	Up to \$23,521 pa	Up to \$23,521 pa	Up to \$42,935 pa	Up to \$42,935 pa

Please note, the thresholds shown above will differ for some pensioners. For example, different means testing rules apply to couples separated by illness and some existing pensioners as at 20th September 2009.



This article by Frank Camilleri (above), National Technical Manager.

WHAT ARE CENTRELINK ASSESSABLE ASSETS?

Centrelink generally includes all assets at market value, including your motor vehicle, home contents, jewelry as well as any bank accounts and investments you may have. The main exemption from the Assets Test is the family home. Other asset exemptions may include:

- Money from the sale of your previous home (as long as you use it within 12 months to buy another home).
- A funeral plot or money paid in advance for funeral expenses (up to \$11,250 per person).
- Investments in superannuation funds, retirement savings accounts and approved deposit funds held by people under Age Pension age.

Other property such as an investment property or holiday home are included whether or not they generate income. For example, a property used solely for holidays, and for which no income is generated is still assessed.

WHAT IS CENTRELINK ASSESSABLE INCOME?

Centrelink assessable income can be quite different from the income your investments actually generate. Centrelink classifies assets as either Financial or Non-Financial Investments for income testing purposes.

Financial investments are deemed to earn a set rate of return regardless of what return they actually generate. These 'deemed' rates are applied to the collective value of financial investments and are illustrated in the following Case Study.

CASE STUDY

George is single and eligible to apply for the Age Pension. He owns the following assets:

Asset	Amount	Actual Income	Deemed Income
Shares	\$50,000	\$2,500 p.a.	\$2,031 p.a.
Bank Account	\$10,000	\$350 p.a.	
Investment Property	\$300,000	\$10,000 p.a.	\$10,000 p.a.
Total		\$12,850 p.a.	\$12,031 p.a.

While George's assets have generated income of \$12,850 in the current financial year, under the deeming rules, the amount assessed under the income test is \$12,031.

- For a couple, the first \$74,400 of investments are deemed to earn 3% per annum with the balance above this deemed to earn 4.5% per annum.
- For a single person, the first \$44,600 is deemed to earn 3% per annum with the balance deemed to earn 4.5% per annum.

Financial Investments include managed funds, direct shares and bank accounts. Non-Financial Investments are assessed based on their actual income and include direct property and allocated pensions (less the exempt amount).

CONCESSION CARDS

A Pensioner Concession Card is provided to all individuals who receive a full or part Age Pension. This card provides concessions in various areas including prescription medicine and utility bills. Depending on your circumstances, the value of the concessions obtained can be quite significant.

For those who do not receive an Age Pension, other concession cards may be available including the Commonwealth Seniors Health Care Card. This card is available to individuals who have attained their Age Pension age but do not qualify to receive the Age Pension due to their level of income or assets.

The Commonwealth Seniors Health Care Card (CSHC) is generally available to those whose annual adjusted taxable income is below \$50,000 (singles) or \$80,000 (couples). There is no assets test applicable for this card. In addition holders of the CSHC, receive an annual supplement of \$837.20 for singles and \$631.80 for each member of a couple.



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