baumgartner
financial services

Quarterly Insight

Changes to the Pension Assets Test from 1 January 2017

300,000 Australians will have Age Pension entitlements cut

Taking immediate effect from 1 January 2017, more than 300,000 Age Pensioners will have their Age Pension entitlements cut, with just under 100,000 of those affected losing all Age Pension entitlements. Due to some miscalculations by the federal government, it looks like many thousands more may be affected by the January 2017 changes.

With revisions to the Age Pension assets test just around the corner, it's important to understand how the changes could impact you. We take a look at what these changes mean and considerations to discuss with your Financial Planner leading up to the asset test changes being implemented from 1 January 2017. Many retirees will need to review their current retirement income strategies in light of the rebalanced pension assets test. Homeowner couples may see a reduction in their pensions by up to $14,122 ($9,798 for single homeowners) that will need to be replaced if a particular retirement lifestyle is to be maintained.

What do these changes mean?

The rebalanced pension assets test effective from 1 January 2017 will:

1) Have higher assets test thresholds

The increase in the assets test thresholds allows clients to hold more assets before their pension starts to reduce. For some clients with lower asset levels, this may lead to higher pension entitlements. For others, the income test will continue to determine their entitlements.

TABLE 1. ASSETS TEST THRESHOLDS

CLIENT SITUATION	ASSETS TEST THRESHOLD (AS AT 20 SEPT 2016)	ASSETS TEST THRESHOLD (AS AT 1 JAN 2017)
Single, homeowner	$209,000	$250,000
Single, non-homeowner	$360,000	$450,000
Couple, homeowner	$296,500	$375,000
Couple, non-homeowner	$448,000	$575,000

2) Double the taper rate from the current $1.50 to $3 per fortnight, per $1,000 of assets.

This change will reduce Age Pension entitlements at a faster rate once assessable assets exceed the new assets test thresholds. The largest reduction in pension entitlements will occur at the new assets test cut-off thresholds (Table 2). Pensioners with assessable assets above the new cut-off will see their pensions reduce to zero.

TABLE 2. ASSETS TEST CUT-OFF THRESHOLDS

CLIENT SITUATION	CURRENT CUT-OFF THRESHOLD (AS AT 20 SEPT 2016)	CUT-OFF THRESHOLD (AS AT 1 JAN 2017)
Single, homeowner	$793,750	$542,500
Single, non-homeowner	$945,250	$742,500
Couple, homeowner	$1,178,500	$816,000
Couple, non-homeowner	$1,330,000	$1,016,000

Managing your cashflow reduction

Of those who anticipate a reduction, or loss, in their entitlements, some may choose to simply review and tighten their budget to offset the reduction (or loss) in their pensions. Others may find this approach challenging, particularly those facing a larger reduction in entitlements.

Depending on your circumstances, if you are looking to maintain your cashflow, there are a number of options and strategies that may help reduce the impact of the assets test changes. These could include:

- Increasing drawdowns from income streams and/or savings;
- Asset reduction strategies; for example, gifting within annual limits, moving savings into a spouses super or bringing holidays or home renovations forward.
- Investing a portion of capital in a lifetime annuity which can help meet ongoing cash flow needs and improve Age Pension entitlements over time.

Depending on your circumstances, it may also be appropriate to look at:

- How you might replace any lost income if your entitlements are reduced.
- How strategies outside of asset reduction may be able to help – for example working for longer or reviewing your budget in retirement.

! ACTION

Cashflow is an important consideration for retirees, especially if you are in the early years of retirement. The rebalanced assets test on 1 January 2017 will see some better off, while others will see a reduction, or loss, in their entitlements.
If you believe you may be affected by these changes, or you have received a letter from the Department of Human Services advising you of the changes to your pension, it is important to make an appointment to come in and discuss what these changes may mean to you and we can work together to make any necessary adjustments to your financial plan.

Sources: www.moneymangement.com.au, www.humanservices.gov.au, www.superguide.com.au

Cashflow and other important effects

The immediate impact with a reduced (or lost) pension is a reduction in cashflow. However, there are also other important effects.

Loss of Grandfathered status on existing Account Based Pensions

The first is the loss of grandfathered status on existing account based pensions (ABPs). ABPs that commenced prior to 1 January 2015 can only remain grandfathered if a pensioner continues to be in receipt of an income support payment such as the Age Pension.

Pensioners who lose their Age Pension entitlement on 1 January 2017 because of the assets test changes will have their ABPs deemed. In many cases, this will lead to higher levels of assessable income going forward.

Government Subsidised Aged Care Fees

This change may affect your government subsidised aged care fees. This is because your income, including your pension, affects your fees. If your pension is reduced or cancelled, Department of Human Services will send you a letter. You'll receive a separate letter if your aged care fees change.

Loss of the Pensioner Concession Card

Another is the loss of the Pensioner Concession Card (PCC) and the concessions it provides to pensioners. There are provisions in place to ensure those who lose their PCC because of the new assets test changes, are automatically issued with a low income health care card (LIHCC) and a Commonwealth Seniors Health Card (CSHC)(if they are over age 65) without being subject to the relevant income test.

Pension Bonus Scheme

If you're registered for the Pension Bonus Scheme, your bonus depends on the rate of Age Pension you'll receive when you claim it. This rate may be different before and after 1 January 2017. You may wish to consider this if you have flexibility as to when to claim.

If you have any queries on the above, please contact Brad Hunt on 9851 9024

03 9851 9000
info@baumgartnerfs.com.au
www.baumgartnersfs.com.au

Level 1, 35 Cotham Road
Kew, 3101
Victoria, Australia