Changes to the age pension assets test from 1 January 2017

Centrelink age pension entitlements are calculated based on the amount of assets and income you have, under the assets and income tests. The income test allows you to receive the full pension if your fortnightly income is within a certain limit. If your income is in excess of the limit your pension reduces by $0.50 for each $1 in excess of the limit (for singles and couples combined).

Under the assets test you may hold a certain amount of assets before your pension will reduce. If your assets exceed your relevant threshold, your pension entitlement reduces by $1.50 for every $1,000 of excessive assets.

On 1 January 2017, there will be a change to how the age pension is calculated under the assets test. The value of assets you can own before the pension reduces will increase, which will allow more pensioners to receive the full pension. Where your assets exceed the relevant thresholds, your pension entitlement will be reduced by $3.00 for every $1,000 of excessive assets, instead of the current reduction of $1.50 for every $1,000 of excessive assets.

Pensioners whose assets are below the threshold may see an increase in their age pension, while those with a higher level of assets will receive a reduced pension or may lose their entitlement altogether.

The examples below illustrate how the changes may impact you depending on your level of assets.

Example 1

Harry is 67, single and owns his own home. He has $500,000 in an account-based pension which is deemed and $37,000 in a bank account. He currently receives $381.90* in age pension per fortnight.

From 1 January 2017, if he still has $537,000 in assets, his estimated age pension will be $49.00^ per fortnight. Harry's age pension entitlement will reduce by $332.90 per fortnight.

*Based on rates and thresholds until 19 September 2016
^Based on rates until 19 September 2016 and expected thresholds from 1 January 2017

Example 2

Jenny is 72, single and owns her own home. She has $240,000 in an account-based pension which is deemed and $40,000 in a bank account. She currently receives $767.40* in age pension per fortnight.

From 1 January 2017, if she still has $280,000 in assets, her estimated age pension will be $783.90^ per fortnight. This is an increase of $16.50^ per fortnight.

*Based on rates and thresholds until 19 September 2016
^Based on rates until 19 September 2016 and expected thresholds from 1 January 2017

Steps to take to increase your pension

Losing some of your pension can impact your cash flow and you may have to supplement this by drawing more from your investments. But there are ways to increase your age pension entitlements by reducing your assessable assets:

- Investing in an annuity that receives concessional Centrelink treatment
- Giving money or assets to your children or other people, up to allowed limits
- Taking out a funeral bond or pre-paying your funeral expenses
- Spending money such as taking a holiday or renovating your home
- Putting some of your money in your spouse's superannuation fund if they are under age 65
- If you or your partner are entering aged care, paying the accommodation payment as a lump sum

But it's important to remember that everyone's situation is different. Strategies that work for some may not work for others. Understanding how Centrelink assesses your income and assets and considering what strategy is best for you can be confusing. Which is why discussing your situation with a financial adviser can help you make the right choices. If you're concerned about how these changes might affect you, contact us today.

Contact TAG Financial for further information on 02 8884 7444 or visit www.tagfinancial.sydney