

# CENTRELINK CHANGES FOR SMSF INCOME STREAMS

Advisers need to consider what action they will recommend their clients take before the 1 January 2015 Centrelink changes to the treatment of income from superannuation income streams take effect.

## 1 January 2015 changes

Legislative changes in March and September 2014 have resulted in an extension of the deeming rules to account based income streams, with effect from 1 January 2015.

For some individuals these changes will potentially impact both their age pension<sup>1</sup> and Commonwealth Seniors Health Card entitlements.

## Age Pension

The current process of reducing (by application of a 'deductible amount') the amount of superannuation income stream assessed for the purposes of the age pension income test will cease for income streams commenced after 31 December 2014.

At present, the deductible amount is calculated by dividing the capital sum of the income stream at commencement, by the life expectancy<sup>2</sup> of the income stream recipient at that time, with that amount not included in the income test.

### From 1 January 2015

From 1 January, superannuation income streams will be deemed to be financial investments and, therefore, subject to a statutory calculation for income test purposes.

The deemed income will be calculated on the balance of assets

supporting the income stream and is currently set at:

- 2% on the 1<sup>st</sup> \$48,000 (single) or \$79,600 (couple); and
- 3.5% on the remainder

For example, if assets totalling (say) \$225,000 are supporting an account based pension for a single person, the deemed income for that year will be \$7,155 ( $\$48,000 \times 2\% = \$960 + \$177,000 \times 3.5\% = \$6,195$ ).

Although the minimum pension required to be drawn, assuming the recipient is aged 65, will be \$11,250 ( $\$225,000 \times 5\%$ ), the deemed income of \$7,155 will be included for income test calculations together with any other assessable income of the individual, to arrive at the age pension entitlement.

## Grandfathering

A degree of grandfathering from the impact of the new rules has been included in the legislation.

Effectively, the deeming rules will not apply to an income stream if, at 1 January 2015:

- the income stream had been commenced; **AND**
- the income stream recipient was receiving the age pension.

The grandfathering also extends to the reversion of the income stream following the death of the initial recipient provided:

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- the pension reversion nomination was in existence at 1 January 2015; **AND**
- the reversionary income stream recipient was in receipt of the age pension at the time of death of the initial recipient.

## Commonwealth Seniors Health Card

Changes have also been made to the way in which income stream benefits are applied to calculate entitlements to the Commonwealth Seniors Health Card ('health card').

Although currently ignored for the purposes of determining health card entitlement, deeming will apply to income streams commenced after 31 December 2014.

Current as at 26 September 2014.

Please note this article is for information purposes only and does not constitute legal or financial advice.

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## Grandfathering

Grandfathering also applies in determining entitlement to a health card, but it is a little more limited than for the age pension.

Recipients of income streams in existence at 31 December 2014, who hold a health card, will not be subject to the deeming rules for the health card.

However, the reversion of the income stream following the death of the initial recipient will be considered to be a commencement of a new income stream, meaning the deeming rules will apply from the time of reversion when assessing entitlement to a health card.

## What action is needed?

At the very least, a review should be conducted of clients currently in receipt of an age pension and/or entitled to a health card, to determine whether:

- the changes will impact their entitlements<sup>3</sup>;
- deeming will provide a better result<sup>4</sup>;
- it is viable to reset the income stream - i.e., commence a new income stream to include any funds in accumulation mode; and
- reversionary pension nominations would be beneficial<sup>5</sup>.

As the grandfathering locks in the deductible amount in income streams commenced before 1 January 2015, a calculation as to whether the deductible amount will provide a better outcome than the

deemed amount over the long term is important.

Also, whilst the initial requirement is that the income stream recipient must be in receipt of the age pension at 1 January 2015, consideration should also be given to the fact that the reversionary beneficiary may be receiving the age pension when the income stream reverts to them at some time in the future, and the optimum position in that event.

## Conclusion

The deeming changes will impact clients with account based pensions commenced after 31 December 2014.

There is no 'one size fits all' answer to what action should be taken, as specific modelling will provide differing results, depending on individual client circumstances.

A review of each client's position will be necessary to determine whether action needs to be taken before 31 December 2014, to either maximise age pension entitlements or help them retain their Commonwealth Seniors Health Card, or both.

## More information

Should you have any questions or require more information, please contact the team at Topdocs on 1300 659 242.

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## Notes:

- <sup>1</sup> Although the changes apply to a broader range of Centrelink income support, we will refer only to the age pension in this article
- <sup>2</sup> Using Australian Life Tables. If a reversionary pensioner has been nominated, the deductible amount will be calculated using the longer of the life expectancies
- <sup>3</sup> In some instances, the value of assets supporting the income stream, together with other assets, will exceed the amount permitted under the assets test, which will make consideration of the income test redundant
- <sup>4</sup> For example, the amount of pension drawn will have a bearing on the outcome
- <sup>5</sup> By applying the longer life expectancy of the actual recipient and nominated reversionary, the current calculations may provide an adverse outcome

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