Changes to the Age Pension rules – will you be affected?

From 1 January 2017 Government changes to the Age Pension are likely to reduce many Age Pension recipient's entitlements. It's important that you understand how the changes could affect you.

Increase in the Assets Test threshold

The Assets Test threshold is the amount of assets pensioners can hold before their pension starts to reduce under the Centrelink Assets Test. Table 1 shows the new thresholds from 1 January 2017.

Table 1 - Assets Test thresholds from 1 January 2017

Family situation	Assets Test threshold
Single, homeowner	$250,000
Single, non-homeowner	$450,000
Couple, homeowner	$375,000
Couple, non-homeowner	$575,000

Increase in the 'taper rate'

The Assets Test thresholds have increased but so too has the taper rate. The taper rate is the rate at which the Age Pension reduces as assets increase above the thresholds. From 2017 the taper rate will increase from $1.50 a fortnight to $3 a fortnight. This means the maximum Age Pension a pensioner can receive will be reduced by $3 per fortnight for every $1,000 of assets they hold above the Assets Test threshold.

How the changes could affect your Age Pension

The higher Assets Test thresholds will generally mean:

- Age Pension recipients with an asset value 'around' the thresholds are likely to see an increase in their Age Pension entitlement, and
- Age Pension recipients with higher asset levels are likely to see a reduction in their Age Pension – in some cases to zero – as a result of the increased taper rate.

Table 2 shows how the changes can affect pensioner couples who are homeowners.

Table 2 – The effect on Age Pension for a couple (homeowner)

Assessable assets*	Current Age Pension	New Age Pension on 1 January 2017	Changes in Age Pension
$200,000	$34,382	$34,382	**$0**
$300,000	$33,915	$33,915	**$0**
$400,000	$30,346	$32,290	**$1,944**
$500,000	$26,446	$24,632	**-$1,814**
$600,000	$22,546	$16,832	**-$5,714**
$700,000	$18,646	$9,032	**-$9,614**
$800,000	$14,746	$1,924	**-$12,822**
$816,000	$14,122	$0	**-$14,122**
$900,000	$10,846	$0	**-$10,846**
$1,000,000	$6,946	$0	**-$6,946**
$1,100,000	$3,046	$0	**-$3,046**
$1,200,000	$0	$0	**$0**

*Assumes all assets are financial assets that are deemed under the Income Test.

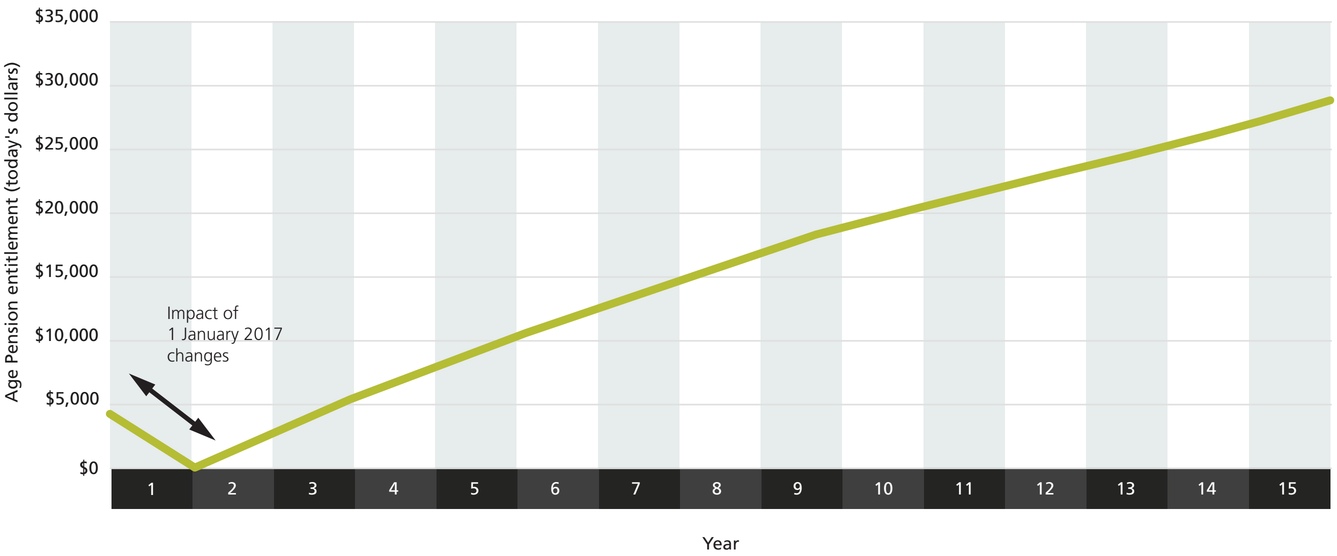
Example

Retired couple Betty and John are both 68 years old and own their home. They have $825,000 in account based pensions (deemed) and $25,000 personal assets. They require $52,000 per annum to fund their retirement and currently receive a part Age Pension of $492 per fortnight (or approximately another $3,937 for the remainder of 2016 if we assume 8 remaining fortnights). If their assets remain unchanged on 1 January 2017, their Age Pension is estimated to reduce to zero (see Chart 1 and Table 2).

Speak to your financial adviser

The changes to the Age Pension can affect pensioners in a number of ways. To find out more about the likely impact of these changes on your entitlements and to explore strategies to help manage the impact, speak to your financial adviser.

Chart 1 – Projection of future entitlements



Source: Challenger Age Pension Calculator

Assumptions: 68 year old couple, homeowners, personal assets of $25,000, total combined account based pensions of $825,000 (deemed) and CPI at 2.5%.

Account based pensions are assumed to have 50% invested in growth assets earning a net return of 6.20% p.a. and 50% invested in defensive assets earning a net return of 3.65% p.a. In addition, platform fees of 0.50% p.a. also apply to the account based pensions.

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