Age Pension to feel the squeeze from 1 January 2017

Andrew Proebstl
Chief Executive of legalsuper, Australia's super fund for the legal community

An annuity may be the answer to reductions in access to the Age Pension scheduled to come into effect on 1 January 2017.

Changes to the Age Pension from 1 January 2017 mean some Australians will suffer a part or full reduction in their pension.

Those who will be adversely affected by the changes (announced in the 2015 Budget) should evaluate their impacts for their retirement lifestyle and the options available to mitigate impacts.

Important changes in the Assets Test

The Assets Test is the amount of assets a pensioner (someone aged at least sixty-five years or over) can have before their pension starts to reduce or is completely removed.

The table below sets out the impending 1 January 2017 changes to the Assets Test.

For single home-owners, the good news is that as of 1 January 2017 a person will be able to have $250 000 of assets as opposed to only $202 000 and still receive the full age pension. However, they will receive no pension with $547 000 of assets, down from the existing amount of $775 000. These amounts exclude the value of the family home.

Couples owning their home will be able to have $375 000 of assets as opposed to $286 500 and still receive the full age pension. However, they will receive no pension with $823 000 of assets, down from the existing amount of $1 150 000. These amounts also exclude the value of the family home.

SINGLE (home-owner)	Current limit	Limit from 1 January 2017
To receive full pension	$202 000	$250 000*
To be ineligible	$775 000	$547 000
COUPLE (home-owner)	**Current limit**	**Limit from 1 January 2017**
To receive full pension	$286 500	$375 000*
To be ineligible	$1 150 000	$823 000

* Pension paid reduces by $3 per $1000 of assets over this threshold.

Increase in the Asset Test taper rate

As well as reductions in the Assets Test, the taper rate will increase. The taper rate is the rate at which the Age Pension reduces as assets increase. From 1 January 2017, the taper rate will increase from $1.50 a fortnight to $3.00 a fortnight. This means the maximum Age Pension will reduces by $3.00 per fortnight for every $1000 of assets above the Assets Test.

A sign of things to come?

An estimated 8 per cent of Australians will suffer a reduction in or be fully excluded from the Age Pension as of 1 January 2017. The current full Age Pension for a single person is $22 721 per annum and for a couple $34 252.40.[1]

It is a harsh reality that our ageing population will place pressures on access to the Age Pension over time. The same can also be expected in relation to access to general health services as well as aged care funding.

This prospect was made clear in the Federal Government's *2015 Intergenerational Report – Australia in 2055* released in March last year.[2]

Then Treasurer Joe Hockey noted in the report that: "With a growing population that will live longer, the Intergenerational Report shows the growth in the costs of many services, especially in health, that will put pressure on the budget and threaten the sustainability of those services. Every day our spending exceeds government revenue by more than $100m. To make up the shortfall we have to borrow that $100m per day."

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One way to maximise access to the Age Pension

An annuity is one way to potentially maximise your access to the Age Pension.

An annuity (also known as a lifetime or fixed-term pension) is an investment, purchased with a lump sum that guarantees to pay a set income for either an agreed number of years, or for life.

Annuities offer a number of potential financial advantages, one of which is they may reduce the total of your assets which count towards assessing your ability to access the Age Pension. In other words, by purchasing an annuity product, you can reduce your total assets and increase your ability to access the Age Pension.

A helpful independent overview of the benefits and constraints of annuities is available on the Australian Securities & Investments Commission MoneySmart website.[3]

Given the impending 1 January 2017 changes, one would be well-advised to obtain financial advice to determine whether you can take steps to maximise access to the Age Pension.

Andrew Proebstl *is chief executive of legalsuper, Australia's industry super fund for the legal community. He can be contacted on telephone (03) 9602 0101 or via aproebstl@legalsuper.com.au*

1 *https://www.humanservices.gov.au/customer/services/centrelink/age-pension*

2 *http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report*

3 *https://www.moneysmart.gov.au/superannuation-and-retirement/income-sources-in-retirement/income-from -super/annuities*