SMSFs and the Age Pension

Subject to satisfying eligibility requirements, self-funded retirees may qualify for Centrelink benefits such as the Age Pension or the Commonwealth Seniors Health Card (CSHC). This fact sheet will run through the key issues that determine eligibility for the Age Pension. We will look specifically at how SMSFs are taken into account for the relevant tests to ensure SMSF members are aware of the opportunities available to them. The key rates and thresholds that apply to the Age Pension are correct at the time of writing.

As the rules are complex we recommend clients seek professional advice particularly if considering undertaking any changes to existing pensions.

Age requirements

To be eligible for the Age Pension you must be 66 years of age or older. The eligibility age increases by 6 months every 2 years and will eventually be age 67 from 1 July 2023.

The age requirement is summarised in the below table from the Department of Social Services:

Period within which a person was born	Pension age	Date pension age changes
From 1 July 1952 to 31 December 1953	65 years and 6 months	1 July 2017
From 1 January 1954 to 30 June 1955	66 years	1 July 2019
From 1 July 1955 to 31 December 1956	66 years and 6 months	1 July 2021
From 1 January 1957 onwards	67 years	1 July 2023

Residence requirements

To be eligible for the age pension it is a requirement that you are an Australian resident. You must also be in Australia on the day that you lodge your claim for the age pension. Residency requirements can also be found here:

https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/who-can-get-it/residence-rules

Income and Assets Tests

Income and assets tests are used to determine eligibility and ultimately how much Age Pension is payable. Different rates apply depending on an individual's relationship status. There are rates for singles, couples and couples who are living apart due to illness.

Both tests must be applied, but the one that results in the lowest Age Pension is the one that is used to determine the actual amount paid.

The base pension rates are indexed twice a year on March 20 and September 20 to reflect changes in the costs of living. The Consumer Price Index and the Pensioner and Beneficiary Living Cost Index are used to increase the pension amount depending on which is higher.

The current full Age Pension rates are as follows:

Current Age Pension Rates	Per Fortnight	Per Year (Approx)
Single	$967.50	$25,155.00
Couple (each)	$729.30	$18,961.80
Couple (combined)	$1,458.60	$37,923.60
Couple (combined - separated due to illness)	$1,935.00	$50,310.00

What is the income test?

The income test assesses income from all sources including superannuation. The following list is a summary of some of the common types of assessable income an SMSF member may receive that will be taken into account for the income test:

Examples of income used in the Income Test

Deemed Income from Financial Investments	Income from a Sole Trader or Partnership Business
Real Estate Income	Income from a Farm
Deemed Income from Superannuation Funds (where reached age pension age)	Distributions/Dividends from a Private Trust or Private Company

For a full list of assessable income visit the following link:
https://www.servicesaustralia.gov.au/individuals/topics/income/30376

The applicable income limits are as follows for the full and part pension:

	Income Limits - Full Pension threshold		Income Limits - Part Pension threshold	
	Per Fortnight	Per Year (Approx)	Per Fortnight	Per Year (Approx)
Single	$180.00	$4,680.00	$2,115.00	$54,990.00
Couple (combined)	$320.00	$8,320.00	$3,237.20	$84,167.20
Couple (combined - separated due to illness)	$320.00	$8,320.00	$4,190.00	$108,940.00

Where income falls under the income limits per fortnight, the full pension is available. The pension reduces by 50c for each $1 over the limit (or 25c for each $1 for both members of a couple). Once income exceeds the income limit for the part pension, no pension is available.

What is deeming and how does it work?
Deeming provisions apply to financial investments including savings accounts, term deposits, managed investments, superannuation, shares and some income streams, including account based pensions. Under the deeming rules, a uniform rate of income is assumed to be earned regardless of the actual income received. The deemed amount of income is included under the income test to determine the age pension eligibility.

The deemed income is worked out as follows:

Single

Level of Financial Assets	Deeming Rate
< $53,600	0.25%
> $53,600	2.25%

Member of Couple (where at least one of you get a pension)

Level of Financial Assets	Deeming Rate
< $89,000	0.25%
> $89,000	2.25%

Deeming Example
A single person has the following financial assets that are used to determine their deemed income:

Financial assets	
Savings account	$10,000
Term deposit	$50,000
Account based pension (purchased Jan 2017)	$175,000
Total	$235,000
Deemed income at 0.25% (up to $53,600)	$134.00
Deemed income at 2.25% (above $53,600)	$4,081.50
Total deemed income for income test	**$4,215.50**
Fortnightly income	$4,215.50 / 26 = $162.13

Whilst deemed income is based on asset values provided annually, other income must be reported as advised by Centrelink, usually fortnightly. Income earnt from employment post retirement age is entitled to a work bonus. The first $300 is excluded from the total. this includes self-employment.

Grandfathered pensions
The treatment of an account based pensions under the income test depends on whether it is a grandfathered pension. A grandfathered pension is an account based pension held as at 31 December 2014 by an individual also in receipt of income support as at that date. The pension will retain this status if the account holder does not change the product or cease to be in receipt of social security income support, including reversionary pensions.

The following table highlights the difference in the treatment under the income test:

Non-grandfathered pension Post 1 January 2015 pension	Grandfathered pension Pre 1 January 2015 pension
Account balance is deemed and the income is determined using the deeming rates	Actual income is assessed less a deduction based on the purchase price (see below formula)

The following formula is used to determine the assessable income from the pension for grandfathered pensions:

Annual Payment – [(Purchase price – Commutations) / Relevant Number*]

* Relevant number is the life expectancy of the recipient, or reversion, at commencement, whichever is longest.

The following link from the Department of Social Services - Social Security Guide has examples of how the grandfathering provisions may apply: https://guides.dss.gov.au/guide-social-security-law/4/9/3/30.

Reporting
SMSF members in receipt of an income stream establish post 1 January 2015 are required to report their 1 July account balance by 31 December each year.

SMSF members in receipt of a grandfathered income stream commenced pre 1 January 2015 are required to report their expected income plus prior year commutations by 31 December each year. Any changes to the income declared should be advised accordingly.

Lump sum commutations
It is important to note that lump sum withdrawals do not count as income in the income test.

However, as per the above calculation, lump sums will impact the annual deductible amount for pre 1 January 2015 pensions.

Similarly if a lump sum is used to purchase an asset or is deposited into an investment subject to deeming it may impact the income and asset test.

Finally, if a lump sum is gifted to another party then the amount will be subject to annual gifting provisions.

What is the asset test?

The assets test also applies by placing a limit on how much your assets can be worth before affecting the pension amount available. Assets include property and items that either an individual or their partner own fully or partially. Assets are assessed at market value less any outstanding related debt.

As per the Services Australia website, the following are included in the assets test, subject to certain exclusions:

- Real estate – the principal home and first 2 hectares of land it is on are not included.
- Retirement village contributions
- Life interests
- Financial investments
- Superannuation investments – Only applicable once you reach Age Pension age
- Business assets
- Funeral investments – Pre-paid funeral expenses and certain funeral bonds are exempt assets but must still be reported.
- Assets given away – Gifting provisions apply.
- Other – the following are also included:
    - Household contents
    - Personal items
    - Motor vehicles, boats, caravans
    - Licences
    - Life insurance policy surrender values
    - Collections of trading, hobbies or investments
    - Cryptocurrencies

There are many inclusions and exclusions for the tests so it's important to fully investigate each relevant type of income or asset when determining eligibility.

Refer to the following link for further information: https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/how-much-you-can-get/assets-test/assets.

The applicable asset limits are as follows for the full or part pension:

	Asset Limits - Full Pension		Asset Limits - Part Pension	
	Homeowner	Non-homeowner	Homeowner	Non-homeowner
Single	$270,500	$487,000	$593,000	$809,500
Couple (combined)	$405,000	$621,500	$891,500	$1,108,000
Couple (combined - separated due to illness)	$405,000	$621,500	$1,050,000	$1,266,500

Example of how the assets test works

Following on from the example for the income test, the single homeowner has the following assets that are included in the assets test:

Assets	
Savings account	$10,000
Term deposit	$50,000
Account based pension (purchased Jan 2017)	$175,000
Household contents	$10,000
Car	$15,000
Total assets for assets test	$260,000

Example of the income test v the asset test

From our example of the income test and asset test, both the income and assets come in under both of the thresholds for the full pension. Therefore, they will be entitled to the full age pension of $967.50 per fortnight.

If we change our example of a single homeowner and increase the level of income and assets in our example, a part pension will be payable as follows:

Income test	
Savings account	$10,000
Term deposit	$50,000
Account based pension (purchased Jan 2017)	$250,000
Total	$310,000
Deemed income at 0.25% (up to $53,600)	$134.00
Deemed income at 2.25% (above $53,600)	$5,769.00
Total deemed income for income test	$5,903.00
Total income per fortnight	$227.04
Calculation of part pension	
Full age pension rate	$967.50
Pension reduces by 50c for each $1 over the limit of $4,680 ($180 per fortnight)	
Reduction amount	$23.52
Part age pension under income test	**$943.98**

Asset test	
Savings account	$10,000
Term deposit	$50,000
Account based pension (purchased Jan 2017)	$250,000
Household contents	$10,000
Car	$15,000
Total assets for assets test	**$335,000**
Calculation of part pension	
Full age pension rate	$967.50
Pension reduces by $3 for each $1000 of excess assets over the limit of $270,500	
Reduction amount	$193.50
Part age pension under assets test	**$774.00**

Both tests are met, but the one that results in the lowest age pension is the one that is used to determine the amount paid. In this example the assets test would be used to determine the part pension amount as it is lower at $744.00.

Downsizer contributions

Another consideration for SMSF members is where they wish to sell their home and make a Downsizer contribution. This can impact on entitlements including the Age Pension and CSHC. By making the contribution, the amount will be included in the assets test and the value will subsequently be included in deeming calculations for the income test.

The primary place of residence is excluded from the assets test.

SuperGuardian as an administrator of SMSFs do not generally have full details of a client's personal circumstances including age pension and CSHC status. Therefore, it is important that trustees understand the significance of their personal situation in making any changes to existing pensions that commenced prior to 1 January 2015. Where grandfathering may apply and a client wants to stop and restart their account based pension to move an accumulation phase balance into retirement phase (subject to their transfer balance cap), it may be beneficial to instead preserve the grandfathered pension and commence a second pension with the accumulation phase balance.