

How to smooth path of pension changes



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PENSIONERS and people nearing retirement are being urged to understand the changes to age-pension rules that could soon affect what they get paid each fortnight.

Centrelink asset test changes will come into effect in January 2017, affecting half a million pensioners, and advisers say many may not be aware of how much they will lose or gain.

In a nutshell, the assets test threshold for receiving the full pension is being lifted by 25 per cent, but the upper threshold above which the pension cuts off will drop from \$1.17 million to \$823,000 for

a homeowner couple. At the same time, the rate at which the pension payments reduce will double from \$1.50 to \$3 per fortnight for every \$1000 of assets people hold above their relevant threshold.

Financial strategist Theo Marinis said there were some strategies available to lower assessable assets, but there was no need to panic.

"They're bringing the asset test back to where it was

before they brought in the GST (in 2000)," he said.

"If you lose a bit of pension, you can withdraw a little bit of your own money now to retain your cashflow.

"It means you get a little less Centrelink pension now, and a little more later."

Labor's superannuation spokesman Jim Chalmers told a conference in Adelaide last month that the changes would have a big impact on many pensioners. "This is one of the issues that out in the community people are just becoming aware of and it's really a substantial thing," Dr Chalmers said.

He said Labor had opposed the assets-test changes, which were passed by Coalition and Greens' senators, because it believed the negative impact was not worth the savings that would be generated for the Federal Budget.

"It wasn't immediately recognisable to a lot of people in the

community that this would have a substantial impact," Dr Chalmers said.

People's Choice Credit Union CEO Steve Laidlaw said the pension changes were good news for some – particularly about 50,000 part-pensioners who would qualify for a full pension under



DON'T PANIC: People's Choice Credit Union's Steve Laidlaw.

the new rules. "For example, a couple who own their own home would currently have an assets test threshold of approximately \$298,500 (under which they receive the full pension), but come January 2017, this will increase to \$375,000," he said. However, the reduction in the upper thresholds mean an estimated 91,000 retirees will lose their pension

completely, and 235,000 will have their pension reduced.

"As some compensation for those set to lose the pension under these changes, the Government has said it will ensure that they have guaranteed access to the Commonwealth Seniors Health Card if they are above age pension age, or the Health Care Card for those under the age pension age," Mr Laidlaw said. Experts say strategies to legally reduce assessable assets should not include blowing cash on holidays, leisure pursuits or spending sprees if it will make life financially tougher in the long run.

"The age pension can be

very complex, so these changes present a great opportunity to meet with a financial planner and reassess your specific situation," Mr Laidlaw said.

"Some considerations a planner may discuss with you might include gifting within allowable limits, funeral bonds or annuities, super contribution strategies, the timing of capital expenditure and home renovations, and strategies for aged care residents."

Under the gifting rules, pensioners are able to give away \$10,000 each financial year, limited to \$30,000 in a five-year period.

Anything above that is still counted towards the assets test. Mr Marinis said a strategy might be to give away \$10,000 in June, then another \$10,000 in July, and a

WINNERS AND LOSERS

- From January 2017, about 50,000 part-pensioners will receive the full pension
- About 120,000 part-pensioners will receive extra pension
- More than 90,000 pensioners will lose their pension completely
- About 235,000 pensioners will receive a reduced payment

HOW IT WILL WORK

You will receive the full age pension if your assets are below:

- \$250,000 for a single homeowner
- \$375,000 for a homeowner couple
- \$450,000 for a single non-homeowner
- \$575,000 for a non-homeowner couple

You will receive no age pension if your assets are above:

- \$547,000 for a single homeowner
- \$823,000 for a homeowner couple
- \$747,000 for a single non-homeowner
- \$1 million for a non-homeowner couple

(Your family home remains exempt from the assets test)

Source: humanservices.gov.au, AMP

final \$10,000 in July next year to quickly lower your assets. You also can spend up to \$12,250 on a prepaid funeral bond, which does not count towards the assets test.

Money spent on home renovations may improve the value of your home, which is exempt from the test.

Mr Marinis said that as a drastic measure, people might upgrade their home to keep more wealth exempt, but for most people that made little sense because of stamp duty and other big transaction costs.

"If you are thinking of doing something major, see an adviser, or at least speak to a Centrelink financial information service officer."