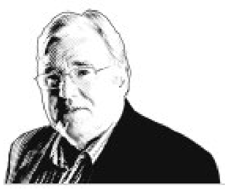
Can we get the Commonwealth Seniors Health Card on a defined pension?

Potentially thousands of public servants with defined benefit pensions could be eligible for this popular concession card.



John Wasiliev
Columnist

Jun 22, 2023 – 5.00am

Save Share

Q: How is superannuation income treated for the Commonwealth Seniors Health Card (CSHC) if the income includes a government defined benefit pension? My wife and I each have Commonwealth Super Scheme pensions that are less than the transfer balance cap assessment of these pensions. Since we have to declare the pensions to the Australian Taxation Office at tax time, we have assumed they are counted towards the CSHC income test. Is that correct? We also have super from account-based pensions, along with other investments. Frank.

A: A significant increase late last year in the income retirees are allowed to earn to be entitled to the CSHC is expected to see thousands become eligible for this attractive concession card for the first time. This is likely to include many public servants who are not aware of this entitlement, says Theo Marinis, of Adelaide-based pension specialist Marinis Financial Group.

One reason they may not be across this, he suggests, is because Commonwealth Super defined benefit pensions can be complex arrangements, especially where they have been partly or significantly funded by what are described as untaxed super contributions.

Untaxed contributions are super amounts where a government employer can nominally contribute up to 17 per cent of your salary to an account in your name in a government super fund, with a promise to pay you a lifetime government-guaranteed pension income stream that will be indexed to inflation when you retire.

Such pensions can be very attractive during times like the present where inflation, as measured by the consumer price index, is on the rise. This year anyone with a defined benefit pension can expect to see this increase by 6-8 per cent.

The pension income is described as untaxed because no tax is deducted from the contributions when they are recorded against your name, unlike most super funds these days where tax of 15 per cent is deducted from any employer or salary-sacrifice contributions when they are made to a super fund account on your behalf.

What differentiates defined benefit super pensions paid on retirement from untaxed super balances is that income payments are fully taxable at personal income tax rates when they are paid, whereas income from super balances where tax has been deducted, like account-based pensions, can be tax-free up to a member's transfer balance cap.

The fact that you must declare the pensions to the ATO at tax time suggests they could be sourced from untaxed super balances, which means they are part of your taxable income.

This fact is important when it comes to determining an entitlement to the health card where a strict income test must be satisfied to qualify for it.

More generous limits

This test saw a significant 50 per cent increase last November in the income allowed from $98,000 to $144,000 for a couple and from $61,000 to $90,000 for a single retiree. These increases will have opened up CSHC entitlements for many lower-paid public servants.

One reason why many public servants are likely to qualify, says Marinis, is because there are not that many with defined benefit pension income streams much greater than $40,000 to $50,000 a year.

Regarding your question, Marinis says the taxable component portion of defined benefit pensions will be counted against the CSHC income test to the extent that they are untaxed.

As far as the balance of your question is concerned, super from account-based pensions is included in the CSHC income test on more favourable terms than defined benefit pensions.

They are assessed under the Centrelink deeming rules where – rather than the pension payment amounts being included in the CSHC income test – a percentage of the account balance at the start of the year is calculated and treated as income.

For a couple, this percentage is 0.25 per cent of $93,600 and then 2.25 per cent of the account balance greater than this. An account-based pension with a balance of $500,000 would see only about $9400 counted against the CSHC income test.

https://www.afr.com/wealth/personal-finance/can-we-get-the-commonwealth-seniors-health-card-on-a-defined-pension-20230620-p5di2z

Marinis says most public servants have gross defined benefit pensions of less than $100,000. Where this applies to a couple, you will probably be either eligible for the health cards or come close to this – unless you have significant assets externally.

He recommends you ask your super fund to send you your annual report, which will give you your untaxed component, and then calculate deeming rates on other assets such as shares and managed funds.

Marinis says another potentially useful source of information against which you can check your situation is Centrelink's financial information service.

As this column has previously noted, income tests are intended to ensure any government concessions like the main one offered under the CSHC of cheaper prescription medicines – where you pay $7.30 a script instead of $30 for 36 scripts after which they become free – are intended to go to mostly low to middle-income earners.

The CSHC also streamlines payments to doctors who bulk bill, and does the same for refunds of major out-of-pocket medical expenses spent outside hospitals for serious medical treatments.

The card offers discounts on various state and local government expenses such as electricity and gas bills, property and water rates, public transport fares as well as other healthcare costs such as ambulance, dental and eye care services.

As a concession card available to retirees who have reached age pension age – which from July 1 will be 67 – and who receive no other government benefits or concessions, the CSHC has been estimated to be worth up to $4000 a year, depending on how much use you make of the concessions.

Financial Strategies (SA) Pty Ltd trading as Marinis Financial Group
T 08 8130 5130 | F 08 8331 9161 | A 49 Beulah Road, NORWOOD SA 5067
E admin@marinisgroup.com.au | W marinisgroup.com.au
ABN 54 083 005 930 5067 | AFSL No: 326403

https://www.afr.com/wealth/personal-finance/can-we-get-the-commonwealth-seniors-health-card-on-a-defined-pension-20230620-p5di2z