



Assets test change can derive benefit

ROBERT THOMAS explains the significance of the September 20 changes to the social security rules.

As part of the Government's Simplified Super changes, two important amendments to the social security rules are due to come into effect on September 20.

Firstly, the assets test taper rate will be halved from \$3 per fortnight to \$1.50 per fortnight for every \$1,000 of assets over the lower assets test threshold.

As a result, the upper threshold will increase significantly from September 20, 2007, resulting in an increase in the amount of assets a person can hold before being precluded from receiving a pension.

The number of people who are eligible for a part pension and associated concessions is expected to increase from September 20, 2007.

Secondly, the 50 per cent assets test exemption for complying income streams will no longer be available for income streams purchased on or after

September 20, 2007.

There may be an advantage for some individuals in purchasing a complying income stream prior to September 20, 2007.

Now that we have had some time to become familiar with the changes it is interesting to evaluate how significant they could be. Consider the case study opposite.

Complying income streams

Complying income streams include term allocated pensions as well as lifetime or fixed term products that meet certain legislative requirements.

Complying annuities can be purchased with either superannuation money or ordinary savings.

Transitional rules

Individuals who anticipate that they may become eligible for a pension because of the change in the assets test should lodge a claim with Centrelink.

Claims can be made from

June 21, 2007.

Centrelink provides an online claim service via its website: www.centrelink.gov.au/internet/internet.nsf/online_services/claim_online.htm.

Pension bonus scheme recipients

For clients who have registered for the Pension Bonus Scheme (PBS) and are considering ceasing work and applying for a pension in the near future, the timing of this should be considered.

As a result of the reduced assets test taper from September 20, an individual whose payment is based on the assets test is likely to qualify for a higher level of pension.

Further information about the PBS is available at: www.centrelink.gov.au/internet/internet.nsf/payments/pension_bonus.htm.

Allowance recipients

For allowees, no allowance is paid if assets exceed the lower

threshold.

Therefore, the reduction in the assets test taper rate will not affect allowance recipients.

Conclusion

As a result of the changes outlined above, the point at which eligibility for a pension cuts out (the upper threshold) will increase significantly from September 20, 2007.

There will be an increase in the amount of assets a person can hold before being precluded from receiving a pension.

The number of people who are eligible for a part pension and associated concessions is therefore expected to increase from September 20, 2007.

A range of quality advice solutions are possible in the lead up to September 20.

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CASE STUDY

BOB and Bronwyn are both aged 66. They have recently retired with a home valued at \$350,000, contents of \$10,000 and a car valued at \$15,000.

Their financial assets include a bank account of \$8,000 and a share portfolio of \$80,000.

Bob has \$120,000 in an allocated pension, and Bronwyn has \$90,000 in an allocated pension.

Bronwyn also receives \$6,000 per annum from a government pension scheme.

We have assumed that Bob and Bronwyn take the minimum income (5 per cent of the account balance) from an allocated pension.

The rate of payment is calculated under both the income and assets test.

The test that results in the lower rate is the one that applies, therefore, Bob and Bronwyn

will be assessed under the assets test and are entitled to \$623.30 per fortnight. From September 20, 2007, this will increase to \$753.00 per fortnight.

If, before September 20, 2007, Bronwyn used the \$90,000 that is currently invested in an allocated pension to purchase a complying income stream (a 25-year term allocated pension), Bob and Bronwyn may qualify for a pension of \$800.30 per fortnight, an increase of \$47.30 per fortnight from September 20, 2007.

The pension could be enhanced further if more assets were placed into a complying pension. However, to ensure the client has flexibility in access to capital from their income streams, only a portion of their assets have been used.

