

# A guide to social security payment calculations

All Centrelink income support payments are calculated using both components of the 'means test' – the assets test and the income test. After both tests have been applied, you'll receive the lowest entitlement amount.

## Income test

If you're a single pensioner, the amount of income you can receive (including deemed income) before your pension is reduced is \$138 per fortnight. This is called the 'income test free area'. The amount of pension you receive reduces by 40 cents for every dollar of income above \$138 you receive per fortnight.

If you're a pensioner couple, the income test free area is \$240 per fortnight combined. The amount of combined pension you will receive as a couple reduces by 40 cents for every dollar of income above \$240 you receive jointly per fortnight.

## Deeming

Deeming is used by Centrelink and the Department of Veteran's Affairs (DVA) as part of the income test. Deeming assumes you earn a certain return on your investments, regardless of the actual rate of return or capital growth you earn.

If your investments earn more than the deemed rate, the excess won't be included in the income test and won't affect your Centrelink payment. But the reverse also applies – if your investments earn less than the deemed rate, they will still be assessed at the deemed rate.

Investments subject to deeming include:

- bank, building society and credit union cheque and savings accounts
- cash
- term deposits
- cash management trusts
- managed investments
- listed shares
- bonds and debentures
- income streams (for example, annuity streams) with a term of less than five years
- super and rollover funds where you are over age pension age.

## Current deeming rates

	Threshold	Deeming rate
Single person	Up to \$41,000	4.0%
	Over \$41,000	6.0%
Pensioner couple	Up to \$68,200	4.0%
	Over \$68,200	6.0%
Non-pensioner couple	Up to \$34,100	4.0%
	Over \$34,100	6.0%

## Case Study – David

David is single with \$35,000 in managed funds and \$145,000 in a bank savings account. The \$35,000 managed funds plus \$6,000 of the bank savings will be deemed to have earned 4.0%. The balance of David's bank savings (\$139,000) will be deemed to have earned income at 6.0%.

Centrelink calculate David's fortnightly income by multiplying his annual income by the deeming rate and then dividing it by 26 (the number of fortnights in a year):

Managed Funds deemed income (\$35,000 x 4.0%/26):	\$53.85
Bank savings account deemed income (\$6,000 x 4.0%/26):	\$9.23
Bank savings account deemed income (\$139,000 x 6.0%/26):	\$320.77
<b>Total per income test:</b>	<b>\$383.85 per fortnight</b>

The pension David would receive under the income test would be calculated as the maximum pension (\$552.60) less the income test reduction.

The reduction amount is the fortnightly income above the income-free threshold, reduced at the rate of 40c in every dollar or  $\$383.85 - \$138 \times 0.4 = \$98.34$

David's fortnightly pension amount would be  $\$552.60 - \$98.34 = \mathbf{\$454.26 \text{ per fortnight}}$ .

## Assets test

The market value of all the assets that you own is included in the assets test. There are some exceptions, including:

- your home
- superannuation in accumulation phase, if you are under age pension age
- 'complying' income streams commenced pre-20 September 2007 (this is explained in more detail below)
- Some 'non-purchased' defined benefit pensions (Comsuper and some State Government or company super pensions)
- accommodation bonds for aged care
- funeral bonds to the value of \$10,250
- burial plots and pre-paid funerals
- gifts under \$10,000 (subject to certain conditions – see 'Gifting').

If you are claiming an allowance (for example, Newstart) you won't receive income support if your assets exceed the minimum threshold as shown in the table below.

Minimum threshold		
	Homeowner: assessable assets (\$)	Non- homeowner: assessable assets (\$)
Single person	171,750	296,250
Couple	243,500	368,000

If you're a pensioner and the total value of all your assets exceeds the minimum threshold, the amount of pension you receive is reduced by \$1.50 per fortnight for every \$1,000 your assets exceed the minimum threshold. This reduction is known as the assets test 'taper'.

Maximum threshold (\$)		
	Homeowner: assessable assets (\$)	Non- homeowner: assessable assets (\$)
Single person	540,250	664,750
Couple	856,500	981,000

### Case study – Jack and Danielle (homeowners)

Assets	Value
Cash and personal effects	\$25,000
Allocated pension account balance	\$575,000
<b>Total</b>	<b>\$600,000</b>

Jack and Danielle are drawing \$36,000 income from the allocated pension. As Jack and Danielle's joint assets fall within the maximum threshold, they qualify for around \$384.65 pension per fortnight. This is calculated as follows:

Assessable assets	\$600,000
Minimum threshold	<u>(\$243,500)</u>
Excess assets	\$356,500
Pension reduction @1.50 per \$1,000 of excess assets =	\$534.75
Full combined pension	\$919.40
Reduction	<u>(\$534.75)</u>
Combined pensions	\$384.65

## Gifting

By giving away some of your assets you may also be able to increase the amount of social security benefits you receive. It's important to note that gifting is limited to \$10,000 per year, to a total of \$30,000 over a rolling five-year period. Anything above the limit is included in the assets test and subject to deeming (see 'Deeming').

### Case study – Barney

Barney is 67, single, and a homeowner with the following assets:

Assets	Value
House (not assessable)	220,000
Car	10,000
Savings Account	10,000
Term Deposit	25,000
Shares	15,000
Cash	120,000
<b>Total assessable assets</b>	<b>180,000</b>

#### Pre-gifting

Barney's age pension under the assets test is calculated as follows:

$$\$180,000 - \$171,750 = \$8,250$$

$$\$8,250 / 1,000 = \$8.25$$

$$\$8.25 \times \$1.50 \text{ reduction} = \$12.38$$

$$\text{Maximum pension } (\$552.60) - \text{reduction } (\$12.38) = \$540.22 \text{ pension entitlement per fortnight.}$$

#### Post-gifting

Barney's assessable assets after gifting \$10,000 to his daughter now total \$170,000, which is below the lower asset threshold. As a result, he will be eligible for the maximum pension of \$552.60 per fortnight.

## Funeral bonds

You can invest up to \$10,250 in a funeral bond and it is not counted as income or assets under Centrelink's means test.

### Case study – Gerry

Gerry, aged 66, is a home owner. The table shows the value of Gerry's assets that will be assessed under the assets test.

Assets	Value
Boat	10,000
Car	10,000
Allocated pension	150,000
Cash Management Account	70,000
<b>Total</b>	<b>240,000</b>

Under the income test, Gerry can claim \$552.60 for his social security entitlement. His income is the deemed amount on the cash management account and a small amount of the annual payment of his allocated pension which just exceeds his deductible amount.

However, Gerry's pension entitlement is reduced under the assets test. Under the current scenario he is entitled to **\$11,705.85 (\$450.23 per fortnight)** age pension.

Gerry decides to buy a \$10,250 funeral bond which is not assessed under the assets test. By doing this, his social security entitlements increase to **\$12,105.60 (\$465.60 per fortnight)**.

## Super

If you are below age pension age, any money you have in super in the accumulation phase (i.e. the phase where you aren't drawing a pension) will not be counted under the assets and income tests.

If you are over age pension age, the money you have in super in the accumulation phase is assessable.

Any money you have in a pension will be assessed by Centrelink whether you are above or below age pension age. However, certain complying income streams purchased pre-20 September 2007 may be eligible for a 50% or 100% exemption from the assets test.

## Waiting periods relevant to Social Security payments

### Income Maintenance Period

The Income Maintenance Period (IMP) is the time you may wait before being paid a Centrelink payment if you have received leave or redundancy entitlements from an employer. Under these provisions, the payments you receive are treated as assessable income for the period relevant to the leave payment. For example, two weeks annual leave would result in a two week IMP starting from the day you receive the payment.

Payments included in calculating the IMP are:

- unused annual or long service leave
- maternity leave
- unused sick leave
- unused rostered days off
- redundancy payments.

The IMP affects all working age income support payments except Carers Payment.

### Liquid Assets Waiting Period

The Liquid Assets Waiting Period (LAWP) is the period you must wait before being paid a Centrelink payment if you have access to any liquid assets above the threshold amount. The current thresholds are:

Single people with no dependants	\$2,500
Couples and/or single people with dependants	\$5,000

Liquid assets are any readily available funds, including those of your partner, which you can access within 28 days of the date you last work. They include:

- cash
- shares and debentures
- term deposits
- other money available at short notice
- payments made or due and able to be paid in respect of your (or your spouse's) last paid employment
- 10-year insurance bonds
- amounts deposited or lent to banks or other financial institutions, whether or not the amount can be withdrawn or repaid immediately.

Super and termination payments which have been (or will be) rolled over directly from your employer are not considered liquid assets.

The LAWP is calculated as a number of weeks as follows:

1. Calculate how much your liquid assets exceed the threshold amount by.
2. Calculate the waiting period by dividing the excess liquid assets amount:
  - by \$500 if you're a single person with no dependants
  - by \$1,000 if you're married or single with dependants.
3. Round the answer to the nearest whole number. The result is the LAWP (maximum 13 weeks).

The LAWP applies from the date your employment ceased.

### Centrelink Compensation Preclusion Period

If you've received (or are about to receive) lump sum compensation for an accident or other work-related incident, there may be a 'preclusion period' during which you won't qualify for a Centrelink or DVA income support payment. This period will usually date from the time of the accident/incident or the date you stop receiving any regular compensation benefits. You may have to repay any Centrelink/DVA payments made after this date.

It's important you know the terms of any preclusion period before using compensation funds to purchase an asset (for example, a house). A preclusion period will apply even if you've used all the funds and have no financial means of support.

Once the settlement of a claim has happened (or is about to happen) you can request an 'Estimate of Charge/Preclusion' from Centrelink which states the likely preclusion period and an estimate of any amounts repayable to Centrelink.

### Things you should consider

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. The information in this publication doesn't take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. As the rules associated with the super, tax and social security regimes are complex and subject to change and as the opportunities and effects differ based on your personal circumstances, we recommend you seek personalised advice from a financial adviser before making any financial decision in relation to anything discussed in this publication.

#### IMPORTANT INFORMATION

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