

What the changes to the social security means test rules for lifetime income streams could mean for you

New law changing the assets and income test treatment of lifetime income streams from 1 July 2019 is an important consideration for pre and post retirees and could change your Age Pension and retirement income outcomes.

The social security assets and income tests

Eligibility for the Age Pension is based upon a number of factors and subject to both an assets and an income test (known as the social security means tests). The social security means tests are based on a person or couple's level of assets or income over and above certain allowable thresholds.

Assessable assets above the allowable thresholds will reduce Age Pension eligibility by \$3 per fortnight for each \$1,000 of assets. Assessable income from investments above the allowable thresholds will generally reduce Age Pension by 50 cents for each dollar of income.

It is important to note that different investments or investment structures (including lifetime income streams) are treated differently under the means tests and can result in different Age Pension eligibility.

The social security means test rules for lifetime income streams

In February 2019, the Government passed new law that changes the means testing rules for certain lifetime retirement income streams (super and non-super lifetime pensions and annuities) commenced on or after 1 July 2019.

These new rules are designed to encourage the use of certain lifetime income streams which feature payments for life, irrespective of how long a person may live, and reducing access to capital over life expectancy. These new rules can provide what can be attractive means testing outcomes for investors.

It is important to understand that the new rules only apply to an investment in a lifetime income stream made on or after 1 July 2019. The new rules do not apply to account-based pensions or term income streams (including term annuities). Also, for any lifetime income stream investment made before 1 July 2019 the previous rules (known as the "deduction amount" rules) will continue to apply and these rules can also provide attractive outcomes.

What are the changes under the social security income test?

The new rules will assess 60% of payments from lifetime income streams under the income test. For example, where a lifetime income pays income of \$5,000 p.a., \$3,000 p.a. will be assessed under the income test.

This may be more or less than the income derived from alternate investments but is generally seen as an attractive treatment.

What are the changes under the social security assets test?

The changes to the assets test for lifetime income streams may also generally be seen as attractive and can, for assets test affected clients, improve Age Pension eligibility.

For lifetime income streams that commence on or after 1 July 2019 the new rules will generally assess:

- 60% of the purchase price of the lifetime income stream until age 84, subject to a minimum of 5 years; and
- 30% of the purchase price thereafter.

This concessional assessment can be attractive compared to alternate investment structures where 100% of the asset value is assessable. Where your Age Pension is being reduced because of the assets test, an investment in a lifetime income stream subject to this assessment could immediately improve your Age Pension eligibility.

Case study: How the new means test rules improved Age Pension outcomes for Wayne and Wendy

Wayne and Wendy are a 66-year-old couple who look a lot like many Australian retirees.

They own a well-maintained home in a nice suburb in an Australian city. They have scrimped and saved through their working lives to accumulate \$300,000 each in super (which they had originally planned to convert into account-based pensions via their super funds).

They also have \$50,000 in bank savings and their non-financial assets (including cars and contents) are valued at \$40,000. They are currently entitled to a part Age Pension of \$13,965 p.a. (based upon their level of assets).

However, Wayne and Wendy's adviser has recommended a combination of income streams for their retirement, including a lifetime income stream (a lifetime annuity in this case) with 25% of their retirement savings to provide guaranteed income for life, no matter how long they both live or how investment markets perform.

This allocation of 25% of their retirement savings to a lifetime income stream ensures a level of income, in addition to any Age Pension entitlement, to ensure that regular expenses can always be met in retirement.

Where this lifetime income stream commences on or after 1 July 2019 just 60% of the purchase price will initially count as an asset under the social security assets test and this will have the effect of reducing their assessable assets and increasing their Age Pension in the first year. In this case their Age Pension in the first year will be \$18,645 p.a. (an increase of \$4,680 in the first year).

Wayne and Wendy's adviser has also modelled the effect of this assessment in later years as this relative benefit changes over time as their other assets fluctuate in value.

To find out more about the changes to the means testing of lifetime income streams, and potential impacts on your personal circumstances, contact your financial adviser.

Contact your financial adviser to determine whether an annuity is right for you.

