Australian Government
Department of Social Services

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Deeming to include account-based income streams

The social security system uses deeming to assess income from financial investments. From 1 January 2015, the deeming rules were extended to include account-based income streams.

Deeming rules

For most of its 100 year history, Australia's social security system has used means testing to make the system fair and properly targeted to those greatest in need. Many social security payments include an income test and an assets test to help ensure that payments are targeted to those people who need them most.

The deeming rules are a central part of the social security income test. They provide a simple and fair way to assess income from financial investments for social security and Department of Veterans' Affairs (DVA) pension and allowance purposes. Deeming assumes that a person's financial investments are earning a certain rate of income. Where returns exceed the deeming rates, this additional income is not assessed.

Investments that are currently deemed include:

- bank, building society and credit union accounts and term deposits
- managed investments, loans and debentures
- listed shares and securities.

The deeming rules will be extended to include account-based income streams from 1 January 2015.

The benefits of deeming

By treating financial investments in the same way, deeming provides an equitable means to assess income from financial investments. This helps ensure that people with the same amount of money held in different financial assets receive a similar assessment.

Treating similar assets in a consistent way also helps to ensure that the social security income and asset tests do not distort people's investment decisions. Deeming removes a possible source of bias when people are making investment decisions, encouraging people to choose investments based on their merit, rather than the impact on their income support payments.

The deeming rules also benefit payment recipients by promoting a more streamlined system and reducing people's income reporting and notification requirements. Assuming a deemed rate of return removes the need for people to inform Centrelink or DVA of every change in income from each of their financial investments.

As previously stated, if someone's financial investments earn more than the deeming rates this extra income is not assessed by the means test. This provides an incentive for people to invest their savings in a way that increases their overall income.

How deeming works

Deeming assumes that financial investments are earning a certain rate of income. The actual returns from the recipient's investments, whether in the form of capital growth, dividends or interest, are not used for the income test assessment, even if the investment returns are above the deeming rates.

From 20 March 2015, a deeming rate of 1.75 per cent applies to financial investments up to $48,000 for a single pensioner, $79,600 (combined) for a pensioner couple or $39,800 each for members of a non-pensioner couple. A deeming rate of 3.25 per cent applies to the remaining financial investment balances above these amounts.

Deeming rates reflect the rates of return people can earn from their financial assets:

- The lower deeming rate reflects that many people choose to have savings in investments with high accessibility and safety, which tend to provide relatively low returns.
- The higher deeming rate reflects that people with more savings may seek higher returns on some of their investments, either by accepting lower accessibility or higher risk.

The deeming rates are monitored on an ongoing basis to ensure that they reflect available returns.

Deemed income is calculated by multiplying the total value of a customer's financial investments by the deeming rates. Deemed income is then added to any other income (for example, wages or rental income) and assessed by the income test to work out a person's rate of payment.

As at 20 March 2015, single pensioners whose only source of income is from financial investments can have up to $150,150 in financial investments ($263,930 for pensioner couples) and still receive the full pension under the income test.

Example: Deemed income calculation

Alan is a single aged pensioner whose financial investments are worth $80,000.

The first $48,000 of Alan's investments would be deemed at 1.75 per cent:

Deemed income = $48,000 x 1.75 per cent = $840

The remaining $32,000 is above the lower threshold and is deemed at 3.25per cent:

Deemed income = $32,000 x 3.25per cent = $1,040

Alan's total annual deemed income = $840 + $-1,040 = $1,880

From1 January 2015, the deeming rules include assessment of income from superannuation account-based income streams

The Australian Government changed the social security income test treatment of account-based income streams for products assessed from 1 January 2015 to align it with the deeming provisions.

Under the new rules, account-based income streams are included in the combined value of a person's financial assets and assessed using the deeming rules.

Existing account-based income streams held by income support recipients as at 31 December 2014 have been 'grandfathered' and will continue to be assessed under the existing rules unless the account holder chooses to change products, or ceases to receive an income support payment.

What are account-based income streams?

An account-based income stream is a retirement income product purchased with superannuation money. Account-based income streams are tax free from 60 years of age. They also include transition to retirement income streams. People with account-based income streams are required by superannuation rules to drawdown a minimum amount of their account balance every year. For example, a person aged 65 to 75 years is required to withdraw at least five per cent of their account balance annually. However, people can choose to withdraw more. Most investors have full access to their capital.

How will income support recipients holding these products before 1 January 2015 be affected?

If a person is receiving an income support payment on 31 December 2014 **and** has a superannuation account-based income stream, **this income stream will be grandfathered and continue to be assessed under theincome stream rules in effect prior to 1 January 2015**, unless the account holder chooses to change products, or ceases to receive an income support payment.

Income support recipients with account-based income streams that are covered by the grandfathering provisions, have the flexibility to change their existing product into a new product and be assessed under the new rules if they choose to do so. Depending on their individual circumstances, some people with account-based income streams may be better off under the new rules.

Choices that do not involve changing to a new product will not affect these grandfathering arrangements. For example, people can drawdown a different amount of money from, or change the mix of investments within, an existing account-based income stream without it losing its grandfathered status.

Where an income support recipient with a grandfathered account-based income stream ceases to be paid an income support payment on or after 1 January 2015, the grandfathering provisions will cease to apply. The recipient's account-based income stream will be assessed under the deeming rules if they later regain an income support payment.

If a person directly holds an account-based income stream and does not receive an income support payment, but has a partner who is receiving an income support payment, the deeming rules will apply to the person's income stream from 1 January 2015 and therefore may affect their partner's rate of income support.

Why are the rules being changed?

The extension of the deeming rules to account-based income streams ensures a fairer and more sustainable income support system. It will mean that people with similar levels of financial assets will be treated equally.

The rules applying prior to 1 January 2015 treated income from account-based income streams differently to how they treated income from other similar investments, like shares or term deposits.

The social security income test rules deduct an amount from the income received from account-based income streams to reflect the 'return of capital' in order to ensure that only income generated from the investments is assessed by the income test. Deeming provides a simpler and more direct method for assessing this income.

Under the rules applying prior to 1 January 2015,, the 'return of capital' deduction amount is calculated using a formula that takes into account the amount invested and, generally, the purchaser's life expectancy (there are specific rules for some situations where a reversionary beneficiary is specified).

The way in which this is calculated results in many people with account-based income streams having small amounts of income (or no income at all) that is assessed by the social security income test, especially when they draw down the minimum amount required. The current rules are therefore highly concessional when compared to the assessment of other financial assets, particularly for people who are in a position to withdraw only the minimum amount.

Are the rules changing for other types of income streams?

People with non-account-based income stream products, such as lifetime income streams or fixed term income streams, will not be impacted by this change.

Unlike account-based income streams, these other products cannot be 'cashed in' (i.e. they are non-commutable) and the income received is set for its term. Because people with these products have no access to their capital, no investment choice and no ability to change the amount of income they receive each year, it would not be appropriate to deem these products.

Furthermore, the income test treatment for these products already appropriately assesses all, or a significant portion, of income received from them.

Similarly, deeming will not be extended to market-linked income streams due to restrictions placed on these products.

Sources of further information

Centrelink's Financial Information Services officers are available to provide information regarding the deeming rules and the calculation of investment income affecting social security pensions and allowances.

Customers can access free information from Financial Information Services by calling 132 300.

Recipients of Veterans' Affairs payments can visit the Department of Veterans' Affairs (DVA) website or call DVA on 133 254 or from regional Australia free call 1800 555 254.

Information about the deeming rules is also available from the **Department of Social Services website**.

Questions about this policy can be sent to the Department of Social Services by emailing **deeming@dss.gov.au**

Information in this fact sheet is correct as of 20 March 2015.