



2014-15 Budget - Changes to the Commonwealth Seniors Health Card (CSHC)

What was announced in the budget?

Indexation of CSHC income limits

In line with the Australian Government's election commitment to seniors, from 20 September 2014 the income thresholds for the Commonwealth Seniors Health Card (CSHC) were indexed in line with the Consumer Price Index (CPI).

This change means modest variations in income will not affect eligibility to the CSHC and will reduce uncertainty for self-funded retirees. The increases in the CSHC income thresholds in 2014 were the first increases since 2001.

Since 20 September 2015, CSHC income thresholds have been \$52,273 per annum for singles, \$83,636 annually for couples (combined income) and \$104,546 annually (combined income) for couples who are separated by illness or respite care. These amounts will be indexed in September each year.

This policy demonstrates the Government's commitment to older Australians. As a result of this change it is estimated a further 27,000 people will access the CSHC by 30 June 2018.

Cessation of the Seniors Supplement

To help ensure payments to senior Australians remain targeted to those who need them most, and to ensure the sustainability of the CSHC, the Government ceased payment of the Seniors Supplement. The final payment of the Seniors Supplement was made in June 2015.

Holders of a CSHC continue to be eligible for all their other current entitlements attached to the card such as:

- medicines listed on the Pharmaceutical Benefits Scheme (PBS) at the concessional rate
- access to PBS prescriptions, generally without charge, for the remainder of the calendar year after reaching the PBS Safety Net
- bulk-billed general practitioner appointments, at the discretion of the doctor (the Government provides financial incentives for general practitioners to bulk-bill concession card holders)
- a reduction in the cost of out-of-hospital expenses, through the lower threshold of the Extended Medicare Safety Net.

CSHC holders also continue to receive the Energy Supplement, which will remain at its current rate (\$366.60 annually for singles and \$275.60 annually for each member of a couple).

Changes to the CSHC income test

From 1 January 2015, income from account-based superannuation income streams has been included in the CSHC income test. The assessment of account-based income stream account balances is now the same for CSHC holders as for Age Pensioners and aligns with the measure to deem the balances of account-based income streams of Age Pensioners from 1 January 2015.

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. The current deeming rate (from 1 July 2015) is 1.75 per cent for the first:

- \$48,600 of a single person's total financial assets.
- \$80,600 of a couple's total financial assets.

A higher deeming rate of 3.25 per cent applies to financial investments above these amounts. The deeming rates are monitored on an ongoing basis to ensure they reflect available returns. 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.

This measure, which commenced on 1 January 2015, included a grandfathering provision. Grandfathering is a provision in which an old rule continues to apply to existing situations while a new rule applies to future cases. Account-based income streams commenced prior to 1 January 2015 by existing CSHC holders are exempt from the new provision and excluded from assessment.

Examples of grandfathering arrangements to apply after 1 January 2015

Example 1 – Irene was the holder of a CSHC on 31 December 2014. Her account-based income stream was purchased prior to 1 January 2015.

Irene is 75 years old, married, and the holder of a CSHC on 31 December 2014. Irene and her husband have a combined annual adjusted income of \$75,000. Irene also has \$1 million in a tax-free account-based income stream, which was purchased before 1 January 2015. **Because of the grandfathering provisions, Irene was not affected by the changes to the treatment of account-based income streams in the CSHC income test, which came into effect on 1 January 2015.**

Irene remains eligible for the CSHC and continues to have access to the benefits provided by the card.

Example 2 – Jasmin claims CSHC on or after 1 January 2015.

Jasmin is single and turns 65 on 15 October 2015. Jasmin is a self-funded retiree and is drawing down on her account-based income stream account balance of \$2 million. Jasmin lodges a claim for the CSHC on 15 October 2015. She has an annual adjusted income of \$5,000. Under the CSHC income test from 1 January 2015, Jasmin's account-based income stream is assessed under the deeming rules as earning \$64,271 per year.

Combined with her adjusted income, her total assessable income would be \$69,271, which is above the annual CSHC income test limit of \$52,273 for singles.

Therefore, Jasmin's claim for a CSHC is rejected.

Example 3 – Sachin changes his account-based income stream after 1 January 2015.

Sachin is 80 years old, single and the holder of a CSHC. Sachin has an annual adjusted income of \$47,000. Sachin is also drawing down on his account-based income stream, which he purchased in 2008. Because of the grandfathering provisions, there is no income assessed against this product. However, on 20 July 2015 Sachin decided to change his existing account-based income stream to another account-based income stream product. As a result, he lost his grandfathered status for this product and deemed income of \$10,000 is assessed against the account balance of his new account-based income stream.

Because Sachin's assessed income is now \$57,000 (as only account-based income streams purchased prior to 1 January 2015 are grandfathered) he lost eligibility to his CSHC because this is above the annual CSHC income test limit of \$52,273 for singles.

Example 4 – David is a member of a couple. David and his partner Deb both own an account-based income stream.

David is aged 68 and was the holder of a CSHC on 31 December 2014. David has a balance of \$500,000 in an account-based income stream. He also has \$45,000 adjusted income. Under the CSHC income test from 1 January 2015, David's income stream is grandfathered and is not assessed. His partner Deb turned 65 in September 2015 and has an account-based income stream deemed to earn \$30,000 annually. The combined income of David and Deb is assessed to be \$75,000 annually (\$45,000 + \$30,000), which is still below the CSHC income threshold of \$83,636 for couples. David therefore retained his CSHC.

Additionally, if Deb applied for a CSHC when she turned 65 in September 2015, she would also meet the combined couple income test (with a combined income of \$75,000). David's grandfathered account-based income stream is not included in her assessment either.

Example 5 – Ron has an account-based income stream with a reversionary provision.

Ron is aged 85. On 31 December 2014 he was the holder of a CSHC and was drawing down on his account-based income stream which had a balance of \$1.2 million. His partner, Julie, is a former public servant who receives a public service pension and their combined adjusted income is \$80,000. As Ron's account-based income stream is grandfathered and not included in the CSHC income test, the total combined couple income for Ron and Julie is assessed as \$80,000.

Ron's account-based income stream has a reversionary provision, which means his account-based income stream will revert to Julie on his death. If Julie is a CSHC holder at the date of reversion, the account-based income stream will continue to be excluded from the CSHC income test.

When Ron passes away, his account-based income stream retains its grandfathered status and will not be counted in the CSHC income test for Julie, as long as this account-based income stream remains as the same product in the same fund.

Increased length of time a person can retain their CSHC if they go overseas from six to 19 weeks

From 1 January 2015, a CSHC holder can travel overseas for up to 19 weeks before their card is cancelled. This change reduces the administrative burden on seniors and Centrelink. If a CSHC holder returns to Australia after an absence of more than 19 weeks, they will need to lodge a new claim for the CSHC.

A person who was absent from Australia from 1 January 2015 when the new rules came into effect, and was a holder of a CSHC, benefits from the increased portability period for the CSHC from six to 19 weeks.

Portability of the Energy Supplement has not changed and continues to be payable only for a maximum of six weeks overseas.

Example 1 – CSHC holder overseas from 1 January 2015 to 10 April 2015.

Barry is a CSHC holder who travelled overseas on 1 January 2015. Barry returned to Australia on 10 April 2015, remaining outside of Australia for the whole of this period. Because Barry's absence from Australia was less than 19 weeks, his card was still valid when he returned to Australia. Barry did not need to claim a new CSHC and retained his grandfathering status on any account-based income streams he held before 1 January 2015.

Example 2 – CSHC holder absent from Australia from 1 January 2015 to 16 July 2015.

Kylie is a CSHC holder who left Australia on 1 January 2015 and returned to Australia on 16 July 2015. Because she was outside Australia more than 19 weeks, Kylie's CSHC was cancelled and she needed to make a new claim for a CSHC on her return to Australia. Kylie was no longer covered by the grandfathering provisions and any account-based income streams she holds were included in the assessment for her CSHC.

The increase in the portability period from six to 19 weeks only applies to customers who are issued their CSHC by Centrelink. Different portability rules apply to customers who are issued their CSHC by the Department of Veterans' Affairs.