Senate Community Affairs Committee

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

SOCIAL SERVICES PORTFOLIO

2014-15 Additional Estimates Hearings

Outcome Number: 1.6 Income Support for Seniors Question No: SQ15-000320

Topic: Deeming Rates

Hansard page: Written

Senator Moore, Claire asked:

On average what is likely to have a bigger effect on the incomes of part pensioners: lowering deeming rates by 0.25% or resetting the deeming rate thresholds from $46,600 to $30,000 for singles and $77,400 to $50,000 for couples?
For a person with assets of $50,000?
For a person assets of $100,000?
For a person with assets of $500,000?
Is it fair to say that the benefit to a part-pensioner of lowering the deeming rate by 0.25% is marginal compared to the effect of resetting the deeming rate thresholds?

Answer:

The deeming rates and the deeming rate thresholds exist for different purposes.

Deeming rates are used as a proxy for actual income from financial investments for the purposes of the social security income test. Because they substitute for actual income, the deeming rates need to reflect returns that can be reasonably expected from financial investments. Expected returns on a range of financial investments are considered, including term deposits, investment accounts, shares and managed investments.

Changes to the deeming rates seek to ensure that the income testing of social security payments is operating consistently and fairly as returns from financial investments change.

- When returns from financial products increase, the deeming rate may be increased to ensure that social security recipients who hold financial investments have more income assessed for the relevant income test
- When returns are low, the deeming rate may be decreased to enable less income to be assessed in determining the recipient’s income support payments

The most recent change to the deeming rates occurred on 20 March 2015, when deeming rates were lowered by 0.25 per cent respectively to reflect the decline in available returns from financial investments. It is estimated that approximately 770,000 Australian income tested part-pensioners and allowees will receive an average increase to their pension of $3.20 a fortnight as a result of the changes to the deeming rates. The actual amount of increase in their payments will depend on the amount of financial investments that pensioners and allowees hold and their other income.

Single pensioners whose only source of income is from financial investments can have $150,150 in financial investments and still receive the full pension under the income test. Pensioner couples can have $263,930 (combined).

The deeming thresholds reflect the expectation that it is reasonable to expect a prudent person to hold a limited amount of assets with high liquidity to meet day to day and unexpected expenses. While these types of investments are easily accessible, they generally generate lower income. Applying a higher deeming rate above the thresholds recognises that people with greater financial assets can invest in products that provide higher returns either by accepting relatively lower accessibility or by accepting slightly more risk.

Centrelink data shows that pensioners start to seek higher returns when their liquid assets are between $10,000 and $20,000. Resetting the thresholds will mean that the lower deeming rate applies to a level of financial investments that better reflect income support recipients' holdings and investment behaviour.

Most recipients hold levels of financial assets below the reset thresholds and will be unaffected by the measure. Approximately 530,000 recipients will be impacted. This group is made up of approximately 240,000 single customers with an average reduction of around $4.85 a fortnight and 290,000 partnered customers with an average reduction of around $3.80 a fortnight.

In regards to the specific circumstances you have raised, assuming a person receives no other income and holds no other financial assets:

- A person with financial assets of $50,000 would receive maximum rate pension and would be unaffected
- A person with financial assets of $100,000 would receive maximum rate pension and would be unaffected
- A person with financial assets of $500,000 would qualify for the pension under the assets test. As deeming relates to the income test only, they would be unaffected.