

Technical update – January 2012

Centrelink assessment of superannuation

It is important to understand how your superannuation is included for Centrelink purposes. The amount of superannuation to be assessed for Centrelink purposes depends on the age of you or your partner, whether you have commenced drawing down your superannuation and whether it is paid to you as a lump sum or pension.

Centrelink assesses your superannuation depending on whether the funds are in the 'accumulation' or 'pension' phase of superannuation. In the accumulation phase, your superannuation will be increased by contributions and earnings credited to your account. In the 'pension phase', your superannuation savings will be drawn down as regular payments. Any income on the balance in the fund that is used to support your pension is tax free.

For Centrelink purposes, 'superannuation' refers to your superannuation account in the 'accumulation phase'. Whereas 'income streams', such as pensions and annuities, are treated as being in pension phase.

Assessment of superannuation in accumulation phase

Two factors determine how your superannuation is assessed. One is your age and the other is whether you have unrestricted access to your superannuation.

Under Age Pension age

The value of your superannuation account that is in accumulation phase is disregarded under the income and assets test when you are under Age Pension age. Only voluntary salary sacrifice contributions are assessed as income.

If you are a member of a couple, you may be able to maximise your income support payments now or in the future by holding your superannuation in the younger spouse's name. Your adviser can help you understand how this strategy works.

Age Pension age and over

When you reach Age Pension age, your superannuation account is an assessable asset and subject to deeming. This assessment applies to other financial investments you may have such as money in a bank account or term deposit, shares and managed funds. Deeming refers to the social security rules used to assess income from financial investments. The rules assume your investment is earning a certain amount of income, regardless of the income they actually earn.

Only voluntary salary sacrifice contributions are assessed as income. However any contributions (including voluntary salary sacrifice contributions) add to the balance of your account, increasing the value of your superannuation assets and the amount that is subject to deeming. Your adviser may suggest commencing an income stream to improve the rate of your Age Pension entitlement.

Unrestricted access

Assessing your superannuation when you reach Age Pension age generally relates to when you have unrestricted access to super. At age 65, you have unrestricted access to your superannuation. For men, the current Age Pension age is 65. However women born before 1 January 1949 qualify for the Age Pension before age 65. Your superannuation may be exempt from assessment if you have reached Age Pension age and you are unable to access your superannuation. Your adviser can assist you to apply for an exemption in these circumstances.

Assessment of income streams

Income streams are assessed according to rules which apply regardless of your age or whether you have unrestricted access to your superannuation.

Account based pensions

If you commence an account based pension (previously known as an allocated pension), the account balance is an assessable asset. The income which is assessed is the gross annual payment less a deductible amount. The gross annual payment is the amount you expect to receive for the financial year, excluding any lump sum withdrawals or 'commutations'. The gross annual payment is offset by a deductible amount which represents the return of your capital. It is calculated as the purchase price less any commutations divided by your life expectancy (determined when your pension started).

Under Age Pension age

If you are under Age Pension age, before you commence an account based pension, you should consider the impact on any income support payments you or your partner receives. In effect you are converting a non-assessable asset to an assessable asset. If your superannuation remained in accumulation phase it would be disregarded when working out your income support payments. Even if you commence a transition to retirement pension, where access to your superannuation may be restricted, the income stream is still assessed under the same rules which apply to account based pensions.

Age Pension age and over

Commencing an income stream when you have reached Age Pension age may improve your rate of Age Pension. The rules for assessing income streams may result in a lower amount of income being assessed than if the amount remained in superannuation or was invested in other financial investments. Your adviser can help you determine whether you may be better off commencing an income stream.

Withdrawals from superannuation

If you are able to access your superannuation, any lump sum you withdraw is not assessed as income. Any further assessment will depend on what you do with the funds. If you spend the money on a holiday or to renovate your home, it will not affect any income support payments you may receive. But if you use the funds to purchase an assessable asset such as a car or place the funds into a bank account, it will be assessed according to the rules which apply to that asset.

Withdrawing a lump sum from an account based pension will affect your deductible amount. Your adviser can work out the effect on your deductible amount and future income support payments.

Ask your adviser how you can invest your superannuation to maximise your Age Pension or other income support payments.

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