

Challenger Tech FAQ



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February 2019

New means testing rules for lifetime income streams rules now legislated

Legislation for the new social security means test rules of lifetime income streams (contained within the Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018) passed parliament on 14 February 2019 and is now awaiting Royal Assent.

The new income and assets test assessments for lifetime income streams will commence from 1 July 2019. Grandfathering provisions will apply to lifetime income streams that commence prior to this date.

The new rules will not apply to fixed term annuities and income streams, account-based pensions, defined benefit income streams or asset-test exempt income streams (for example term allocated pensions).

Broadly, the income and assets test assessment of new lifetime income streams is as follows:

Income test

The new rules will assess 60% of payments from lifetime income streams under the income test.

For deferred lifetime income streams purchased using superannuation, the assessment will apply once income payments commence, i.e. no income assessed during the deferral period.

Assets test

For new lifetime income streams that meet the Capital Access Schedule (CAS) in the SIS Regulations and where the individual has reached their 'assessment day', 60% of its purchase amount will be assessed as an asset until the life expectancy of a 65-year old male (currently age 84) subject to a minimum of 5 years. After this, the assessment reduces to 30% of the purchase amount.

If the new lifetime income stream provides a surrender value and/or death benefit above the CAS, their assessment will be based on the greater of:

- The amount assessed as above (60% until age 84 with a minimum of 5 years, 30% thereafter);
- Any current or future surrender value above the limits in the CAS; and
- Any current or future death benefit above the limits in the CAS

Assessment day

The assessment day is a new concept that is designed to determine when the new rules will apply to lifetime income streams. The definition is quite complex however for many retirees, this will generally be the day the income stream is purchased.

Life insurance

The legislation also includes a new assessment for life insurance products where the individual purchased the policy or became the owner of the policy from pension age.

The rules are designed to ensure that new lifetime income stream products that access the new 60/30 assessment cannot also provide death benefits that exceed amounts allowed under the CAS.

The new rules will only apply to life insurance policies where the total premium paid in any 12-month period exceeds 15% of the maximum death benefit that is payable.

The new assessment will assess the greater of:

- Any surrender value offered by the policy, and
- The purchase price (premium) less commuted amounts.

Other changes

The Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018 also included two other key changes. These are:

Pension Work Bonus

From 1 July 2019, the Pension Work Bonus will increase from \$250 to \$300 per fortnight with the maximum unused amount that can be accrued increasing to \$7,800 (up from \$6,500).

In addition, the Pension Work Bonus will be extended to those who are self-employed. However, a 'personal exertion' test will be introduced to ensure the Pension Work Bonus is only available to those who are engaged in gainful work and not to those receiving passive income such as income from real estate.

Pension Loan Scheme

Currently part-pensioners and some self-funded retirees who own a property in Australia can access the non-taxable Pension Loan Scheme (PLS). It is available to those who are not entitled to the maximum rate of pension, or any pension, because of the Income Test or Assets Test (but not if they are ineligible under both tests).

Under the scheme, individuals who are of pension age can obtain a loan (secured against the individual's property) to increase their fortnightly pension payment from a part-rate or nil rate, up to the maximum pension rate.

From 1 July 2019, eligibility for the PLS will be expanded to include all Australians of pension age even if they are currently receiving the maximum rate of pension. Also, the loan amount that an individual can receive will be increased to 150 per cent (from 100%) of the maximum pension rate. This will apply to both new and existing participants in the PLS.

Further details and analysis of the above changes will be provided in future Challenger Tech updates.

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