

# The Deeming Guide – July 2005

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**Please note:**

***The deeming information in this publication is correct at 1 July 2005.***

## What is deeming?

Deeming:

- is a simple way of assessing the income from your financial investments for the purpose of working out how much pension or allowance you are paid;
- builds upon the successful bank deeming rules that applied before July 1996; and
- does not change taxation rules – it is only used to work out how much pension or allowance you are paid.

## Which payments are included?

- Means tested pensions paid by Centrelink and DVA (ie. age pension, wife pension, widow B pension, disability support pension, carer payment and service pension).
- Income support allowances (ie. newstart allowance, youth allowance, partner allowance, mature age allowance, mature age partner allowance, austudy payment, widow allowance, parenting payment, sickness allowance and special benefit).
- Other income support payments and supplements (eg. exceptional circumstances relief payments).

## When did deeming start?

- Deeming was introduced from July 1996.

## First – what didn't deeming change?

The:

- principal home remained totally exempt;
- assets test remained the same;
- pension free area (the amount of income you can have without affecting your pension) continues to be indexed in July each year; and
- pension amount payable under the income test - continues to be compared to the pension amount payable under the assets test with pensioners receiving the lower of the two assessed amounts.

## Second – what did deeming change?

Deeming:

- changed how financial investments are assessed under the income test; and
- replaced a number of complex assessment rules, especially rules relating to managed investments and shares.

## What are 'financial investments'?

Under the **Social Security Act 1991**, financial investments, irrespective of when the investment was made, include:

- cash and bank accounts (including pensioner "deeming" accounts);

- shares and other listed securities;
- managed investments;
- loans and debentures;
- gold and other bullion;
- rollovers and superannuation investments held by persons **over** age pension age; and
- asset tested annuities and superannuation pensions with a term of 5 years or less.

### **What are NOT financial investments?**

Financial investments do not include:

- your home (principal residence) – totally exempt;
- household contents;
- cars, boats and caravans;
- standard life insurance policies;
- holiday homes, farms and other real estate;
- antiques, stamp or coin collections;
- superannuation pensions, allocated pensions and allocated annuities and immediate annuities – except for asset tested annuities and superannuation pensions, which have a term of 5 years or less; and
- rollovers and superannuation investments held by persons **under** age pension age.

### **What are the current deeming rates?**

A deeming rate of 3 per cent applies to the first:

- \$37,200 of a single customer's financial investments.
- \$62,000 of a pensioner couple's financial investments.
- \$31,000 of financial investments for each member of an allowee couple.

A deeming rate of 5 per cent applies to financial investments above these amounts.

### **Why was deeming introduced?**

In the 1994 independent income and assets test review, in which pensioners and pension groups participated, the main concerns were:

- complexity of income test rules, particularly for shares and managed investments;
- how often the rules for financial investments caused payments to go up and down; and
- the effect of the income test rules on incentives to earn more from investments.

### **What are the benefits of deeming?**

Deeming is:

- simpler and fairer;

- reduces the frequency by which the pension amount goes up and down; and
- encourages people to earn more income from their investments.

### How is deemed income calculated?

#### Step 1 – Work out the total value of your financial investments

- The dollar value of each of your financial investments are added together.

#### Step 2 – Working out deemed income

A deeming rate of 3 per cent applies to:

- Single customers – the first \$37,200 of total financial investments.
- Pensioner couple – the first \$62,000 of combined financial investments.
- Allowee couple – the first \$31,000 of financial investments for each member.

A deeming rate of 5 per cent applies to financial investments over these amounts.

#### Examples

<b>1. Single pensioner with one financial investment</b>			
<b>- Bank account      \$64,000</b>			
	<b>Total financial investments</b>		<b>\$64,000</b>
	<b>DEEMED INCOME</b>		
		\$37,200 @ 3%	\$ 1,116
		\$26,800 @ 5%	\$ 1,340
	<b>Total deemed income</b>		<b>\$ 2,456 pa</b>

<b>2. Pensioner couple with one financial investment</b>			
<b>- Bank account      \$70,000</b>			
	<b>Total financial investments</b>		<b>\$70,000</b>
	<b>DEEMED INCOME</b>		
		\$62,000 @ 3%	\$ 1,860
		\$ 8,000 @ 5%	\$ 400
	<b>Total deemed income</b>		<b>\$ 2,260 pa</b>

<b>3. Single pensioner with two financial investments</b>			
<b>Financial investments:</b>			
	- Bank account		\$10,000
	- Term deposit		\$30,000
	<b>Total financial investments</b>		<b>\$40,000</b>
<b>DEEMED INCOME</b>			
		\$37,200 @ 3%	\$1,116
		\$ 2,800 @ 5%	\$ 140
	<b>Total deemed income</b>		<b>\$ 1,256 pa</b>

<b>4. Pensioner couple with two financial investments</b>			
<b>Financial investments:</b>			
	- Bank account		\$25,000
	- Term deposit		\$40,000
	<b>Total financial investments</b>		<b>\$65,000</b>
<b>DEEMED INCOME</b>			
		\$62,000 @ 3%	\$ 1,860
		\$ 3,000 @ 5%	\$ 150
	<b>Total deemed income</b>		<b>\$ 2,010 pa</b>

- Income is assessed only at the deeming rates;
- the actual income you receive from financial investments is not assessed;
- this means that if you get more interest than the deeming rates, the extra isn't counted.

Step 3: What happens after income from financial investments is worked out?

- After income from financial investments is worked out, it is added to any income earned from sources other than financial investments (for example income from real estate or employment).
- Total income is then used to work out the amount you can be paid under the income test.
- Amount of income allowed before a pension is reduced:

Single	\$124.00 pf
Pensioner Couple (combined)	\$220.00 pf

Step 4: What happens after the amount you can be paid under the income test is worked out?

- The amount you can be paid under the income test is compared to the amount you can be paid under the assets test; and
- you receive the lower of the two pension rates.

### Example Of All Of The Steps For A Single Pensioner:

**Step 1:** Add value of financial investments together.

– bank account	\$20,000
– shares	<u>\$15,000</u>
Total financial investments	\$35,000
– other assessed income	\$ 6,000 pa

#### Deemed Income From Total Financial Investments:

<b>Step 2:</b> \$35,000 @ 3%	=	\$1,050
\$ nil @ 5%	=	<u>\$ 0</u>
		\$1,050 pa

**Step 3:** Calculation of pension under income test:

<u>Deemed Income</u>	\$ 1,050.00
Other assessed income	<u>\$ 6,000.00</u>
Total income	\$ 7,050.00 pa (or \$271.15 per fortnight)
Subtract free area	<u>\$ 124.00 pf</u>
Excess income	\$ 147.15 pf

The amount of pension payable under the income test is reduced by 40 cents per dollar of income over the free area. So the pension reduction would be 40 per cent of \$147.15 pf: that is \$58.86 pf.

**Step 4:** The amount that can be paid under the income test is compared to the amount that can be paid under assets test and the lower of the two rates is paid.

### When will the deeming rates change?

The Minister for Family and Community Services decides whether the deeming rates change. Factors taken into account in setting deeming rates include:

- investment returns available on a range of financial investments; and
- the need to prevent disruption to customer payments by making frequent or small changes to the deeming rates.

The deeming rates are monitored on an ongoing basis. Any changes to the deeming rates are usually timed to coincide with March, July or September pension or threshold indexation points. This is simpler for pensioners because it reduces the number of changes to their payments.

The deeming rates do not always change in March, July and September. Whether there is a change will depend upon an assessment of relevant factors as described above. There have been only 7 changes to the deeming rates since July 1996.

### **When will the deeming threshold amounts change?**

- The maximum amount of financial investments that is assessed at the lower deeming rate is indexed in line with the CPI each July. The thresholds were last set at \$37,200 for a single customer, \$62,000 for a pensioner couple, and \$31,000 for each member of an allowee couple from 1 July 2005.

### **Where to get more Information**

Further information on deeming is available from:

- Centrelink on 13 2300; and
- the Department of Family and Community Services Internet site at [www.facs.gov.au](http://www.facs.gov.au) (under "publications").