National Seniors AUSTRALIA

MEDIA RELEASE

NEW DEEMING RATES

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From tomorrow, May 1, the Federal Government's new lower deeming rates will come into effect.

The upper rate for savings and investments balances above $51,800 for a single pensioner will fall from 3% to 2.25% and the lower rate for savings and investments below $51,800 will fall from 1% to 0.25%.

National Seniors Australia, which led the campaign to lower deeming rates, said in March 2020, at the time of the announcement, it welcomed the move to cut the rates.

However, National Seniors Chief Advocate Ian Henschke says this now happens when the Reserve Bank has just dropped the official cash rate to a record low of 0.25% and the economy is in crisis with billions of dollars of value wiped off the stock market.

"Mayday is the international cry for help when in distress and that's how pensioners feel this May Day because once again this latest deeming rate cut is simply not enough," Mr Henschke said.

"Bank deposit rates are at an all-time low, shares have crashed, dividends have been slashed and returns from rents are vanishing. The world is in the grip of a COVID health and financial crisis.

"The upper deeming rate drops tomorrow to 2.25%, but where do you find a safe place to get that sort of return? Remember you're deemed to be earning that amount and your pension is cut accordingly by 50 cents in the dollar for every dollar earned above the threshold," he said.

Australia's peak consumer organisation for older Australians says the rate is manifestly unfair and hurts almost a million Australians including more than half a million aged pensioners. Deeming is used not just to calculate the aged pension, it also affects a range of other social security payments including disability pensions, carer payments, service pensions, parenting payment and widow allowances.

Mr Henschke says the 2.25% rate is nowhere near what is offered if you walked into a bank.

The Commonwealth Bank this week has a 'special offer' of 1.1% for 8 months. That's under half the government's upper deeming rate.

"While any deeming cut is welcome, we have to recognise even before the full impact of the COVID crisis hit home, one of Australia's most successful Treasurers, Peter Costello, called out the deeming rate as too high.

"Back in March Mr Costello said the current rate was pushing pensioners into riskier investments, and that was a problem.

“The current state of the share market and property market shows just how risky the investment environment is outside of a government backed term deposit. If it says you can earn 2.25% then it should offer an investment that gives that return.

Instead it could offer a green bond as proposed by National Seniors budget submission to invest in Snowy 2.0.

Our members have said this is what they’d like to do.

If not Mr Henschke wants the upper deeming rate dropped again to reflect the cash rate as it had done for decades (see graph below) before it was used, he says, as a social security savings tool to take money from pensioners and welfare recipients.

National Seniors also wants an independent body to set deeming rates and the pension, to take the politics out of the retirement income system.

ENDS

Ian Henschke is available for comment, call 0488 047 380