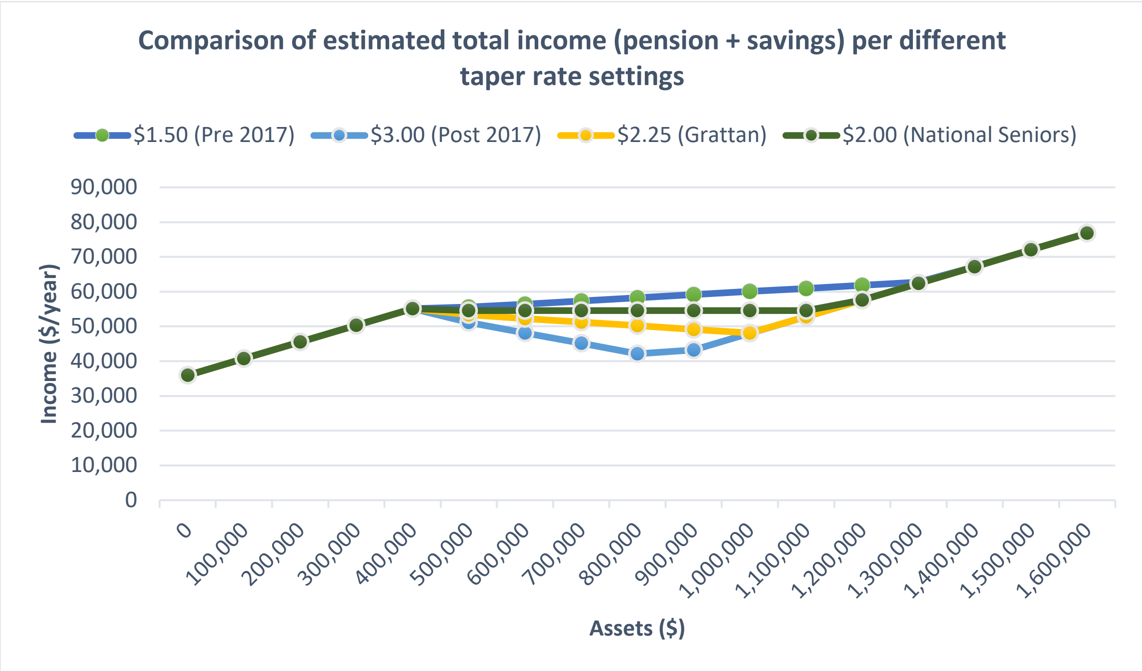
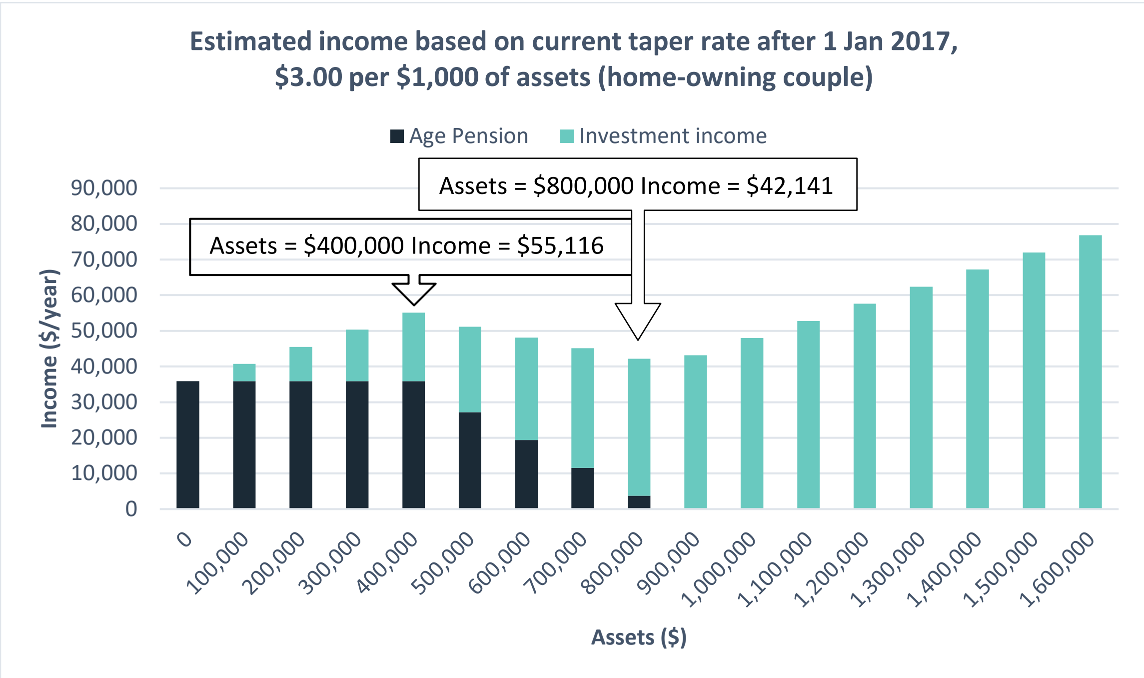
National Seniors AUSTRALIA

FACT SHEET:
Age Pension asset test taper rate

Why the current taper rate is a disincentive to save

Calculations show there is a dip in the total income at current taper rate compared to other scenarios. The following graphs estimate total income at different taper rates: $3.00 (current) $1.50 (pre 2017), $2.00 (National Seniors), $2.25 (Grattan Institute). **Note**: Based on home-owning couple; Age Pension = $35,916; Investment income with assets of 20% bank deposit @2%, 80% LICs @ 5.5%.





After 1.1.2017 $3.00 per fortnight for every $1000 extra = $78 per year or taper rate of 7.8%

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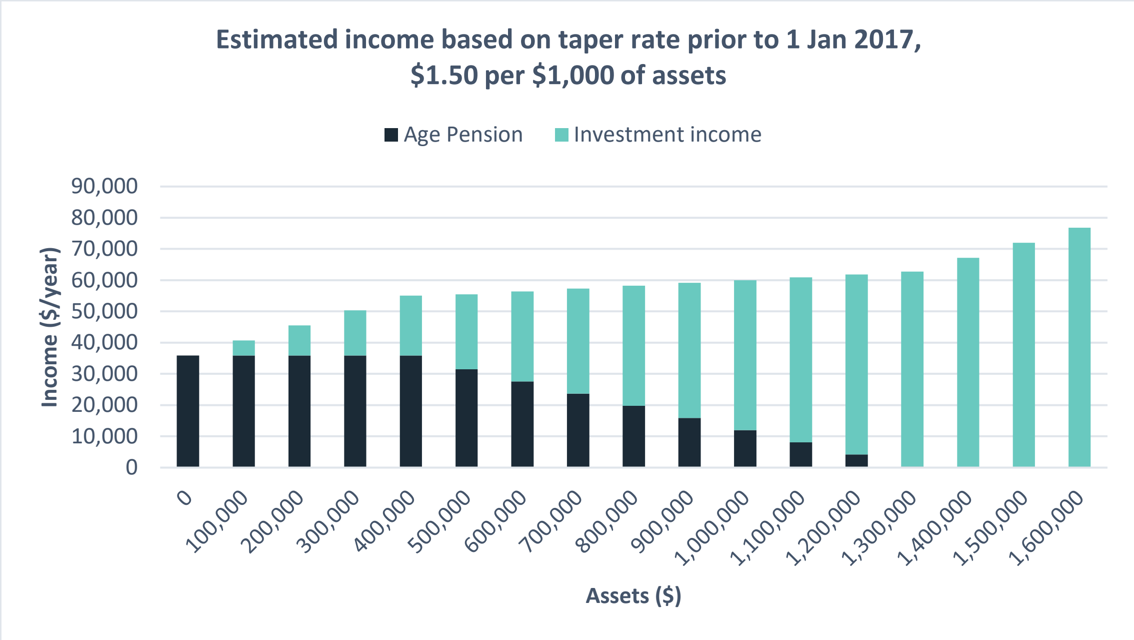
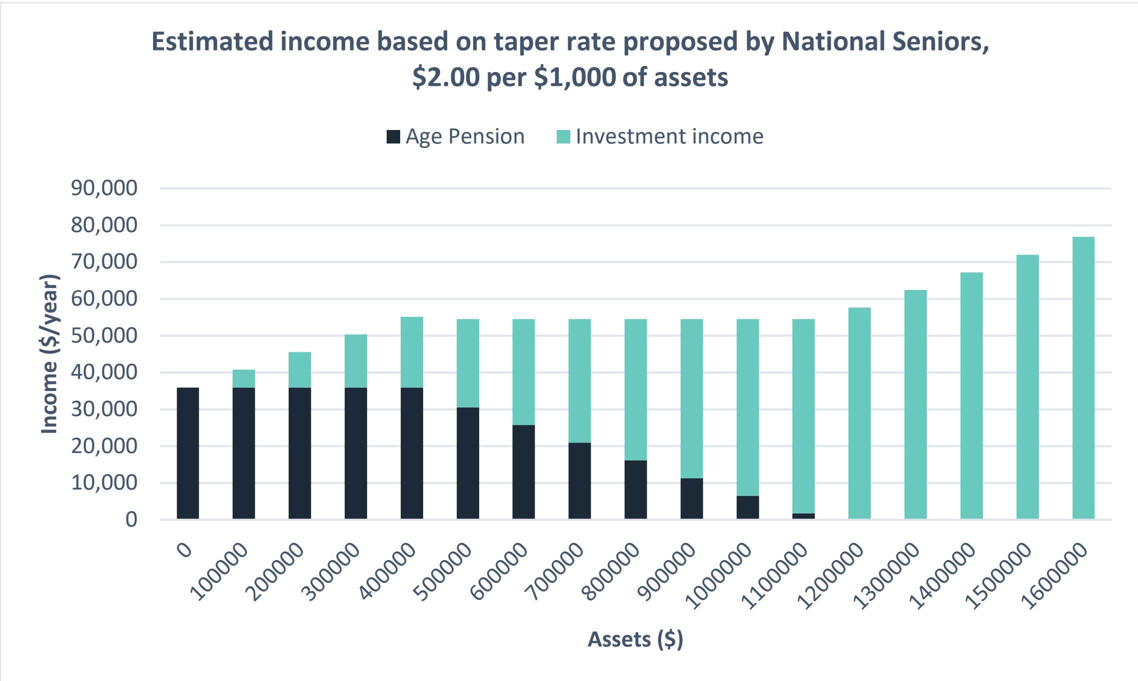


Assumptions: Before 1.1.2017, age pension assets taper rate was $1.50 per fortnight for every $1000 extra = $39 per year or taper rate of 3.9%



National seniors $2 per fortnight for every extra $1000 = $48 per year or taper rate of 4.8%

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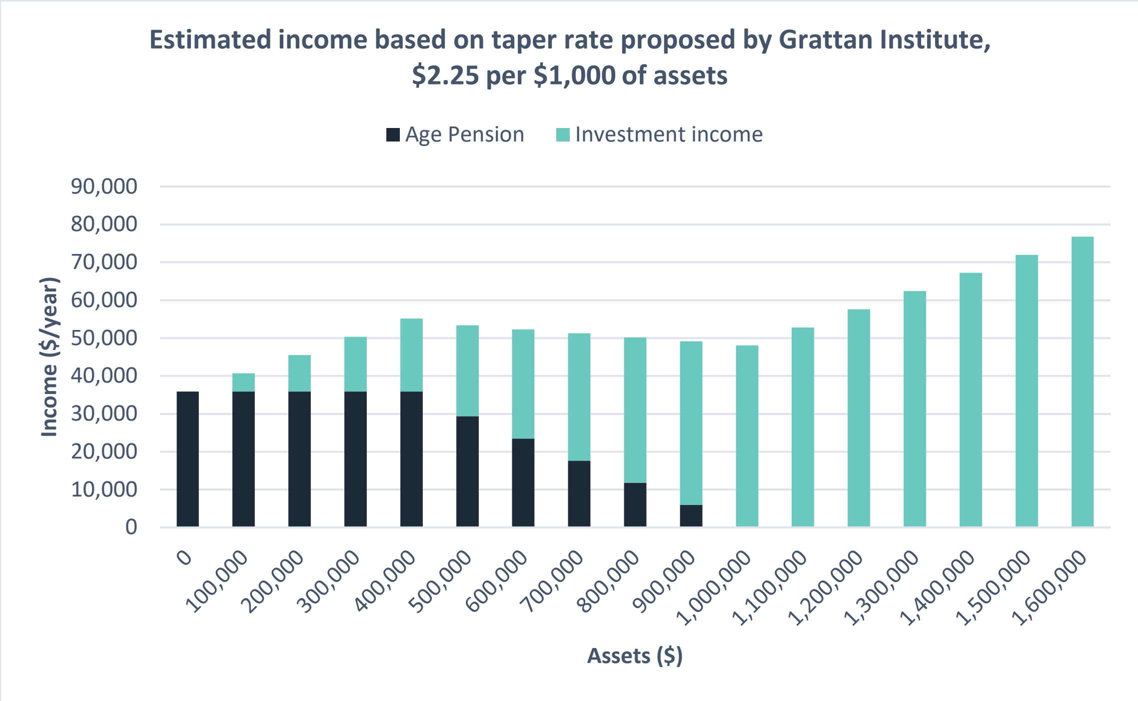


Grattan Institute $2.25 per fortnight for every extra $1,000 = $58.5 per year or taper rate of 5.85%

Estimates are been supported by other authors.

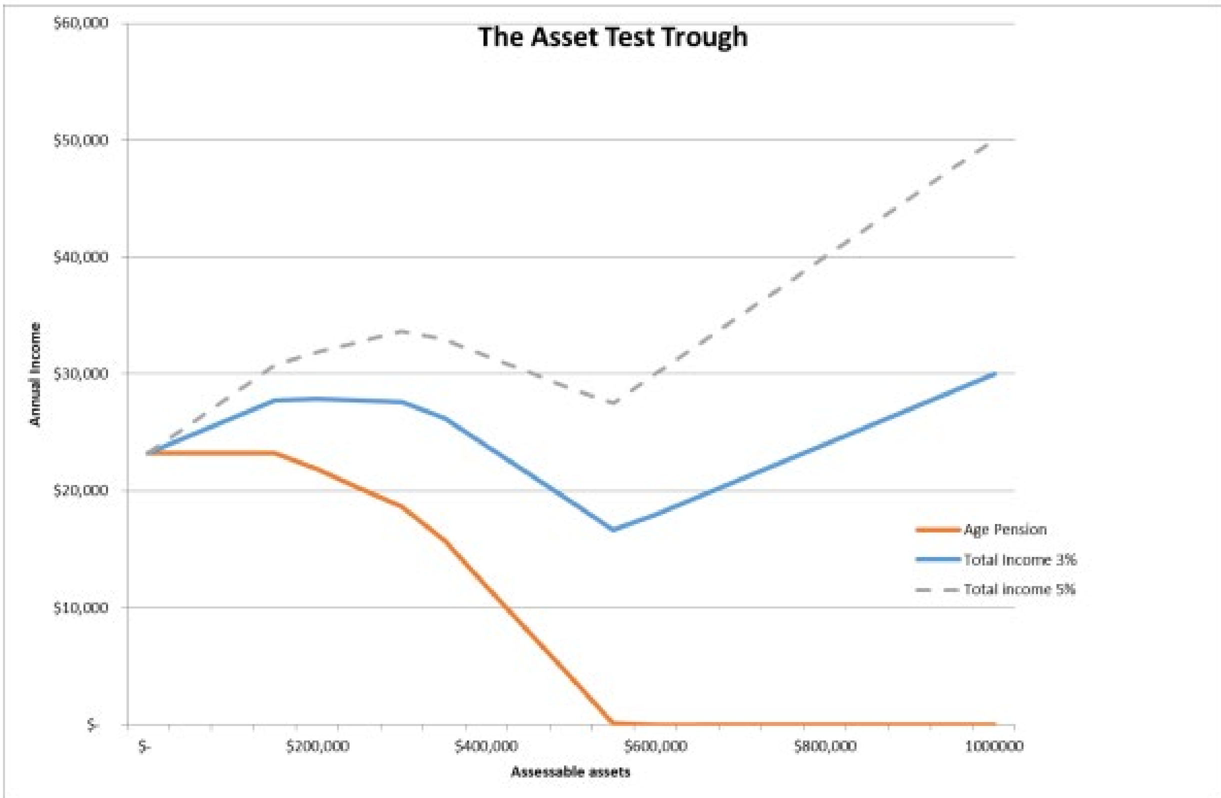
1. [Anthony Asher & John De Ravin 2018]

According to a recent paper, the current assets test taper rate “creates a trough in income between about $300,000 and $700,000 in assessable assets”.

According to the author’s calculations, “annual income declines with increasing assets because the income from the marginal assets (whether returning 3% p.a. or 5% p.a.) is less than the AP [Age Pension] foregone, which is 7.8% p.a.”

It shows is that you are better off not having assets between $300,000 and $700,000.

Note: Based on a single home owning pensioner



2. **Jack Hammond and Terrence O'Brien**

Hammond and O'Brien have calculated the impact of the changes in 2017 and showed a similar issue. They claimed the Age Pension changes are unfair to retirees with savings between $400k and $1m. **Note**: Calculations were based on 65-year-old couple who own their home in mid-2017.

Chart 2: Corresponding annual retirement incomes, pre-January 2017 pension asset test, from legislated minimum super drawdown (5% per annum)

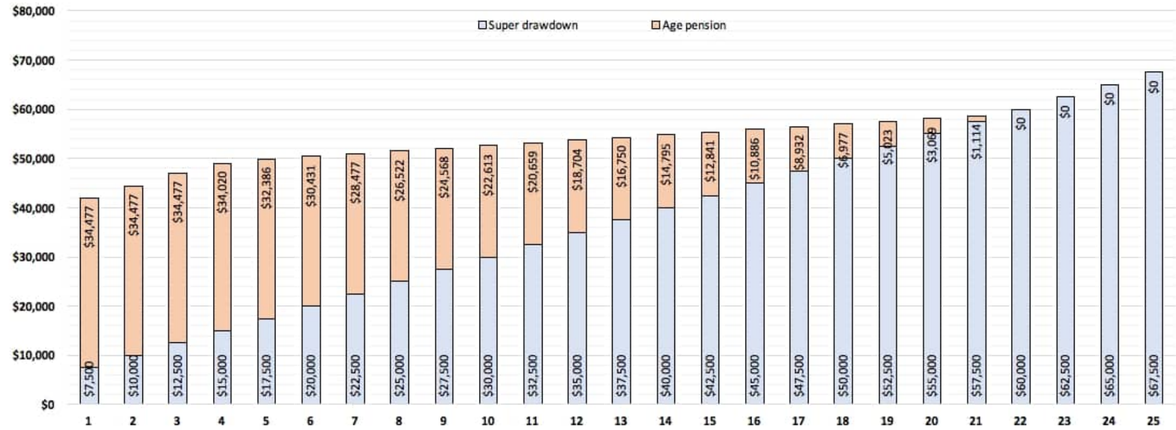
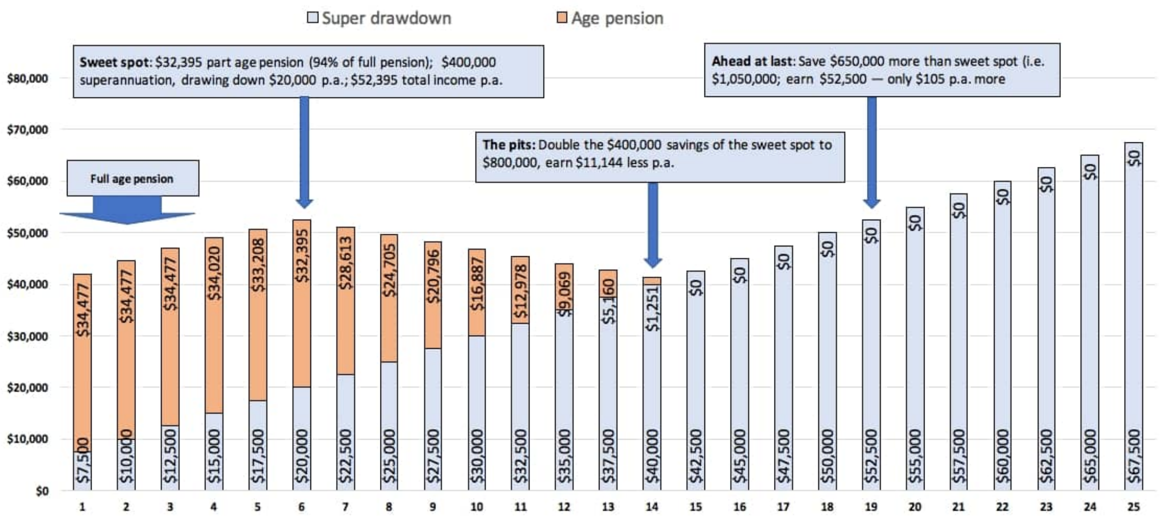


Chart 3: Corresponding annual retirement incomes, post-January 2017 pension asset test, from legislated minimum super drawdown (5% per annum)



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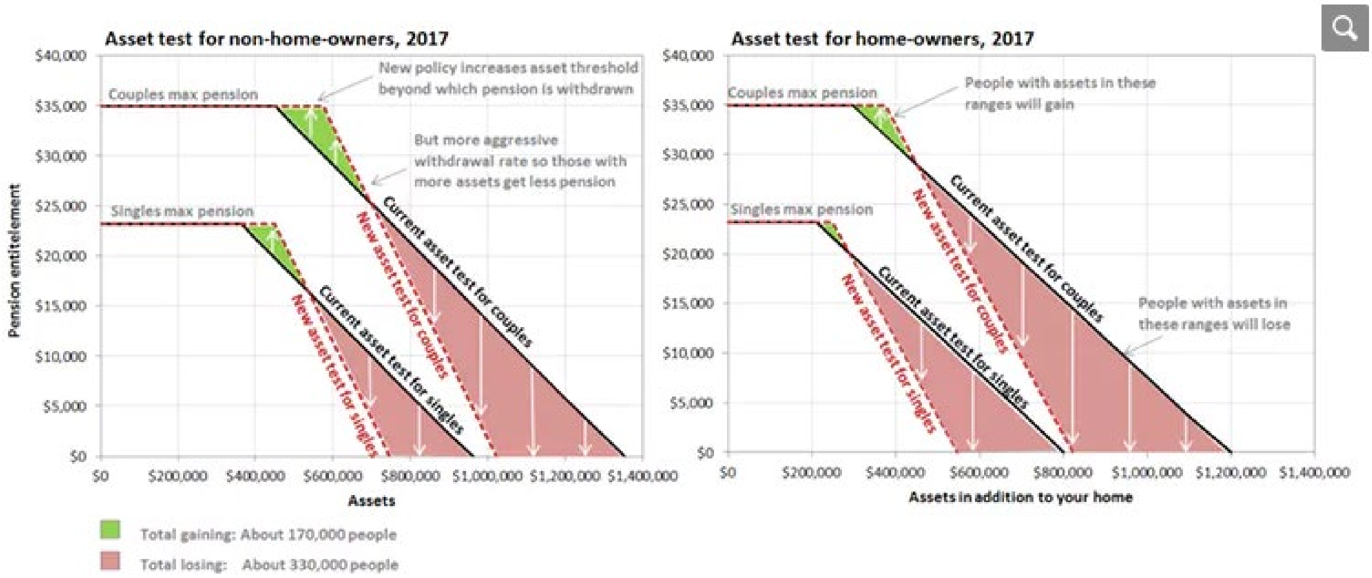
Change to the asset test pre and post 2017

Source: Rafal Chomik 2015. Budget brief: will I lose my age pension? in *The Conversation*



Asset test changes for pensioners. Data from DSS, Author provided

Asset test thresholds (as at 1 July 2019)

Source: Department of Human Services

Asset test thresholds	Full Pension		Part pensions	
	From 1 July 2019, pensions reduce when your assets are more than the amounts below:		From 1 July, 2019, part-pensioners cancel when your assets are more than the amounts below. Your limits are higher if you get Rent Assistance with your pension	
	Home owner	**Non-home owner**	**Home owner**	**Non-home owner**
Single	$263,250	$473,750	$572,000	$782,500
A couple, combined	$394,500	$605,000	$860,000	$1,070,500
A couple, separated due to illness, combined	$394,500	$605,000	$1,012,000	$1,222,500
A couple, 1 partner eligible, combined	$394,500	$605,000	$860,000	$1,070,500