TAX TALKS

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Qualifying for the age pension is an arduous exercise. But it can be done. About 75% of Australians at pension age receive some form of age pension – be it a full or partial age pension.

Age Pension

To better understand the age pension we spoke to John Saunders of The Pittwater Partnership in Sydney. Here is what we learned, but please listen to the interview since John explains this much better than we ever could.

To qualify for the age pension you need to pass four hurdles. You need to be old enough, a resident and pass the income and asset test. So let's go through these one by one.

Age

To qualify for the age pension you need to be at least 67 years of age. This is the line in the sand if you were born in 1957 or later.

If you were born in June 1952 or earlier, then your pension age is 65 years of age. That is the lowest offer on the table.

And if you were born between these two dates, then a transition period applies to you. Your pension age is 65 years and 6 months if born July 1952 to December 1953, 66 years if born January 1954 to June 1955 and 66 years and 6 months if born July 1955 to December 1956.

So go by your date of birth and determine your pension age. And then write it down. This is your first goal post.

Did you have a pension age of 70 years in your mind? It would make sense if you did. Raising the threshold to 70 years of age had been on the table for a while.

It first came up when Joe Hockey was federal treasurer. But his proposal didn't receive any support from parliament and so quietly slipped away.

Increasing the pension age to 70 was Liberal policy from May 2014 until September 2018. But in September 2018 new prime minister Scott Morrison promised to remove this measure from party policy. So 67 it is – for now.

Residency

The second requirement is that you need to be an Australian resident to qualify for the age pension.

You are an Australian resident if you live in Australia meaning Australia is your usual place of residence. And you are either an Australian citizen, a permanent residence visa holder or a protected Special Category visa (SCV) holder.

This sounds straight forward and it used to be. But in our global world it no longer is. Many born in Australia live, work or retire overseas. Many born overseas live, work or retire in Australia. And so this issue becomes more and more complex.

Enhanced Residency Requirements for Pensioners

And so on this basis the Enhanced Residency Requirements for Pensioners that apply from 1 July 2018 make sense.

You meet these new residency requirements for the age pension (and disability support pension) if one of the following applies to you.

You either have had 10 continuous years of Australian residence including at least 5 years during your Australian working life. Residence during your working life is the number of years you have resided (lived permanently) in Australia between age 16 and pension age (be this 65 or 67 or something in between).

You have had 10 continuous years of Australian residency and proof you have not received activity tested income support for cumulative periods of five years or more.

Or you have had 15 years of continuous Australian residency.

If you meet one of these three criteria, you meet the residency requirements for the age pension.

Existing exemptions will stay the same. As a refugee or former refugee or recipient of a partner, widow or widow B allowance for example you are exempt from the 10 year rule.

And if you’re already receiving the age pension, these new requirements won’t affect you unless your payments are cancelled after the 1st of July 2018 and you need to re-apply.

SCV Holder

You would have received a **protected** Special Category visa (SCV), if you arrived in Australia on a New Zealand passport before 26 February 2016. If you arrived on a New Zealand passport after that date, you would have received a **non-protected** SCV.

This distinction is important. If you hold a protected SCV and were in Australia on 26 February 2001 or at least for 12 months in the 2 years before this date, then you count as an Australian resident for social security purposes. Meaning you can qualify for the age pension.

As an unprotected SCV holder, you are not an Australian resident for social security purposes. So that means no age pension in Australia. At least not as a SCV holder.

Income Test

The income test looks at your fortnightly income from all sources. This includes financial assets such as cash, bank accounts, term deposits, managed funds, bonds, superannuation, shares and the lot.

But rather than looking at your actual return from these financial assets, the income test uses deeming. Meaning the test includes a standard rate of return for these assets rather than looking at the actual return.

The income test thresholds are based on your fortnightly income and are regularly adjusted for inflation. But the general concept of a minimum threshold and a cut-off point with a phase out between these two points doesn't change.

The minimum threshold means that if your income is at or below this threshold, you will receive the full pension. Very broadly speaking – just to give you a general idea – the minimum threshold ranges from $180 to $400 per fortnight depending on family status, dependants, health, disability and other factors.

And then there is the cut-off point. Once your income exceeds this cut-off, you have failed the income test and won't receive any age pension. The cut-off ranges – very broadly and rounded – from $1,000 to $4,200 income per fortnight, again depending on family status, dependant children, health, disability and other things.

If your fortnightly income falls between these two points, then your age pension is gradually adjusted to take your income in excess of the minimum threshold into account. So the higher the threshold and the lower your income, the higher the pension you receive.

Assets Test

The assets test is the last hurdle you need to take. There are limits to how much your assets can be worth before it affects your pension amount.

There is a long list of asset limits on the Department of Human Services website and they regularly change. The asset limits range from $250,000 to $1.3m depending on your family status, living arrangements, disability and other factors.

The assets test includes all your assets to start with. From real estate, granny flats, retirement village contributions, life interests, financial investments, superannuation, business assets, funeral investments, assets given away to other assets including cars, boats, caravans, licences, collections, cryptocurrencies, household contents and personal items.

But then some exemptions kick in. The main exemption is your principal home. Other exemptions include the accommodation bond you might have paid on entry to a residential aged care facility and funeral bonds.

But one important thing is not exempt once you reach pension age. Your super. So if you sell your home to down-size and put the proceeds into super, you might bust the asset test.

Age Pension Payment Rates

So these are the four hurdles you need to pass to qualify for the age pension. But once you do, what do you actually get?

As usual there is not a straight forward answer. Just as with the income and asset thresholds, the payment rates depend on your family status, living arrangements, disability and other factors.

Very broadly speaking and rounded the age pension ranges from $600 to $1,500 per fortnight.

Assessment

If you have very little, then applying for the age pension is less riddled with pot holes.

But if you have more than very little, and especially if you also need to look at financing aged care, then it might be best to consult an expert. There are many details you need to consider.

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