PODCAST TRANSCRIPT

Talent: Hank Jongen, General Manager and

Justin Bott, Financial Information Service Officer

Topic: Pensioner assets test changes

Female voiceover

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Hank: Hello, my name is Hank Jongen, General Manager with the Department of Human Services. And today we're going to talk about the 1st of January 2017 asset test changes and to discuss it in some detail, I'd like to welcome Justin Bott, who's a FISO with the Department of Human Services.

Justin: Thanks for having me.

Hank: Now FISO stands for Financial Information Service Officer.

Justin: Yep.

Hank: I talk about it a lot when I'm doing talkback radio. Let's just start with a quick outline of what the changes are, Justin.

Justin: Ok, so on the 1st of January 2017, the way that the department is looking at assets is going to change. We're actually going to asses those assets a little bit more steeply, if you like, than we did beforehand. Which means that the amount of assets a person can have before they lose the pension is actually going to be less than it was before.

Hank: You made mention of the fact that this affects Age Pensioners, is it only Age Pensioners that are affected?

Justin: That is a great question. No, it's not just Age Pensioners, it's actually anybody who's in receipt of a pension at all. Your main pensions are Age Pension, which is by far the biggest pensioner base that we've got, but also Disability Support Pensioners, Carer Payment recipients and it also applies to Department of Veteran's Affairs Service Pensioners as well; they're also income and assets tested so they'll be affected by this too.

Hank: Now you say that once you reach the thresholds, the impact of the assets test will be increased and some people will face a reduction in their pension, but in fact some pensioners will actually receive an increase, isn't that true?

Justin: Yeah that's correct. Now the threshold is the amount that a person can have in assets before their payment starts to be affected by the assets test. One of the changes that is occurring from the 1st of January is that threshold amount is actually going to be bigger than it was before.

So, for example for a single person at the moment for an Age Pension or Disability Support Pension, you're allowed to have $209,000 worth of assets if you own the home that you live in. From January 2017, that's going to jump up to $250,000. So if I am somewhere in the $209,000 to $250,000 worth of assets, I'm facing the possibility of an improvement in my pension rate.

Hank: So, you reach the threshold and if you're below the threshold you may get a bit of an increase. Once you reach the threshold and you're above the threshold, what then happens?

Justin: Ok, so at the moment, in order for me to have a pension, once I reach those thresholds, for every thousand dollars-worth of assets I have, my pension goes down by $1.50.

What's going to happen from the 1st of January 2017, for every thousand dollars of assets I have, my pension goes down by $3.00.

So the effect of that is what we call the taper, which basically means the more that I have, the less I get, the effect of that taper is going to be steeper than it was before.

And it is important to remember that this is actually the way it always used to be, so before 2007 that was the rule; for every thousand dollars-worth of assets I had, my pension goes down by $3.00.

Hank: How many people is this going to affect?

Justin: Well I want to make sure that everybody's aware that by far the majority of people are not going to be affected by this at all. We're looking at somewhere in the vicinity of 88% of pensioners, which is millions of pensioners, won't have any impact by this change. So we're only looking at those people, first of all, who will get that increased rate of payment and that's great for them. Somewhere in the vicinity of 8% of the Australian pension population is looking at either getting a reduced rate of payment or no payment at all.

Hank: Now, home property – is it included in the assessment?

Justin: Generally speaking, no. So, the basic rule for Centrelink is that the family home is an exempt asset, so that won't be an issue.

There is circumstances where you may have made part of the family home an assessable asset if you run a business out of it, or you're using it for a boarder, or 'Bed and Breakfast' sort of arrangement, you've actually created an asset from the family home. But apart from that, by far the majority of people who aren't doing anything like that, the family home is exempt regardless of the value.

Hank: So, that's a nice clarification that the home property isn't an asset, but what is an asset?

Justin: Almost everything else is. So, your main assets are going to be your bank accounts and your shares, your superannuation fund if you're over Age Pension age, and that's a big thing to be working through with this change is super if my partner or I are under Age Pension age. Investment properties that I might own, holiday homes that I might own, cars, home contents, if I've got that little stamp with the aeroplane upside down that's worth about a million dollars, that is absolutely an asset that Centrelink is going to be concerned about.

Hank: You said before that close to 90% of pensioners are not affected, now what about those people that are affected? What are we doing to tell them that these changes are coming up?

Justin: Ok, well by now they would've received their first letter. So, if you have not received a letter about this, then you're pretty safely going to say that you're not affected by the change. So, at this point you'll have received a letter that says that a change is coming.

In December, you're going to get a letter that will tell you more specifically about how that change will affect you.

So, the letter that's come through at the moment is just to give you a heads-up that the change is occurring, the letter from December will actually say from January, this is what we're expecting is going to happen to your rate of payment.

At the moment we're giving people an opportunity to start preparing.

Hank: Yep.

Justin: If there's anything that they need to do or want to do, this first letter is to give them time to do that. The December letter will then give a clear picture of what's going to be happening from the 1st of January for them.

But again, if you haven't got a letter that's because there's nothing to tell you. There's nothing that you need to worry about, you don't need to contact us because I didn't get a letter. If you didn't get a letter it's because there's no news to tell you, everything is going to go the same as it was before.

Hank: What do you suggest they do once they get the letter?

Justin: Well they don't have to do anything. The assessment that we've got is based on the information that we're using in determining their eligibility. So, if that information is correct and up-to-date, there's actually nothing that they need to do.

But, there's obviously some people who haven't done what they need to do. They haven't told us about changes for a while and we'd be recommending that they be going to their myGov account and actually start making sure that their bank account details are correct and the home and contents values are correct and the car values are correct – just making sure it's all cleaned up.

Hank: Sure.

Justin: So that by the 1st of January, whatever rate we do pay them is as accurate as it can possibly be.

Hank: So it's really the time to look at your situation. Now I hear there's also an online estimator that people can go to?

Justin: Yeah. On the Human Services website, which is humanservices.gov.au, if you click on the 'Older Australians' button, which you'll see, you'll see a choice that gives you an estimator that tells you very easily what the assets effect would be for you from the 1st of January 2017.

It's not a perfect estimator, because it's just trying to give you the simple answer – if I have these assets, what will the pension be?

Hank: Now earlier you said 88% of pensioners are not affected, however 8% of pensioners are going to lose their benefit, that's about 320,000.

Justin: Well 8% are either going to reduce or lose, so not all of them are going to be losing. It's somewhere in the vicinity of 80 to 90 thousand they're expecting will actually lose eligibility, the remaining are going to have a reduced rate of payment.

So certainly there's no getting around the fact that there'll be people who'll no longer have a pension, and there's no way getting around the fact that there'll be people getting less pension; and they're going to need to work out if this income source is gone, where am I going to start generating that income source from other places?

Hank: So for those that lose their pension, I understand that they also retain the Seniors Health Care Card?

Justin: Yes, so what happens is that at the moment, if I've got a pension, I have my Pension Concession Card. But if I lose my pension as a result of the 1st of January change, then I've lost my eligibility for that Pension Concession Card.

What's happening with this change, which as far as I'm aware has actually never been promised before – it's a brand new thing, is that if your payments are cancelled as a result of the 1st of January, and only on the 1st of January, then you'll be eligible for both the Commonwealth Seniors Health [Care] Card, if you're over Age Pension age, and everybody who's on a pension of whatever form will be eligible for a Low Income Health Care Card for the rest of their life regardless of any change in their personal circumstances.

Now often, you possibly would've been eligible for at least one of those cards by applying anyway, because neither of them are assets tested so the change would've had no difference to them, but now you don't even have to apply and it doesn't really matter what you do, you have that concession eligibility.

So a lot of people when they're coming to see me they're worried about the fact they're going to lose things like their council rates and water rates, and they are and there's no getting around that. But they're worried about losing their prescriptions and their bulk billing and their hearing aids and things like that, and both through the Commonwealth Seniors Health [Care] Card and the Low Income Health Care Card, you're keeping all of that.

So the medical side of your benefits will continue, but that other side of it, your car registrations and driver's license, those other benefits that you might've been receiving because you're a pensioner, they will go.

Hank: So Justin, I know that you've been traveling around a bit and talking to people about these changes. What are the sort of questions you're getting?

Justin: Ah, well the first question is obviously 'Am I going to have a pension or not?', but the next question people want to follow that up with is 'Well if I'm going to lose my pension or reduce my pension, what is it that I can do about that?'

So, one of the classic ones that people always talk to me about as well is that 'I understand that I can gift money away, I can hand money over to somebody else, and that will reduce my assessable assets', and that's absolutely true. They will often ask 'What is the law about gifting?', and the reality is there is no law about gifting. There's nothing illegal, if you've got money it's your money to do with as you wish, you can give as much away as you like, but, as far as the department is concerned, you can gift away whatever you like, but we're only going to recognise the first $10,000 of that gift. Which practically means that if I give away $100,000, or I give away $10,000, the effect on my Centrelink pension is actually going to be exactly the same – and the practical difference between the two is not what it's done to my pension, it's going to be I've lost the interest on that $100,000.

Now, if I've got the money, got the person in need and I can deal with the lack of income, knock yourself out, give that money away. But, the worst case that I've ever seen is a gentleman who had a million dollars in assets before he retired, his son had a very, very significant mortgage so he gave his son a million dollars to clear off the mortgage and rocked up to Centrelink the next day and said 'Pay me a pension'. And the thing about gifting is that we asked what you've done in the five years before you applied for the pension, he gave away a million dollars, we pretend he's still got $990,000 – we don't pay a pension to single people with $990,000. So he's not got any pension eligibility and he's got not any income because his son put the money into the mortgage.

So for this guy, he's got to be really careful and hopeful that his son is going to look after him for the next five years because that's how long the penalty for a gift can occur.

Hank: So there's real traps for new players?

Justin: There are, and again it's not that you can't, alright? It's not that you're not allowed to. Nobody is anywhere saying you're not allowed to do it, but, can I afford to not have that money, not have that interest anymore? That's really the question I try and ask people.

Hank: Ok, how about a quick recap Justin? I'll go through what I think are the main points…

Justin: Go for it!

Hank: … and you pull me up if I'm wrong.

Justin: Ok, no you go.

Hank: So firstly, the assets test threshold is being increased, that's the point at which your pension starts to be affected, so some people will receive an increase. If your assets are above that threshold, then the taper, the rate at which is affects your pension, is increased – so some people will either have their pension reduced or cancelled. And for those who have their pension cancelled, they'll retain their Seniors Health Care Card indefinitely.

Justin: And the Low Income Health Care Card.

Hank: Thank you.

Justin: Actually, because it's interesting that between the two, the Low Income Health Care Card is actually the more beneficial one.

Hank: Ok.

Justin: It's more recognised across the country as a Centrelink benefit, rather than the Commonwealth Seniors Health [Care] Cards. That's also the one that a lot of pensioners would not have an eligibility for and that's really one of the great advantages that's going to come through that change for them.

Hank: And the other two things that I think are important for us to reflect on is property is not included and the majority of pensioners are not affected.

Justin: Correct.

Hank: Thank you, Justin, and I appreciate your time today.

Justin: Oh, been a pleasure thank you.

Female voiceover

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