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Weighing up the Age Pension and the assets test

Why having less super isn't necessarily a financial sweet spot for retirees.

Millions of Australians aged 67 and over have just received an Age Pension boost as a result of the Department of Social Services lifting its fortnightly payment rates.

The full Age Pension rate for singles has increased by $28.10 per fortnight to $1,144.40 ($29,754.40 per annum), and by $42.40 per fortnight to $1,725.20 for couples ($44,855.20 per annum). These figures include pension supplements to help with energy, phone, internet and medicine costs.

Age Pension rates are typically indexed twice a year (on 20 March and 20 September) to reflect changes in the cost of living and wages.

Coinciding with the latest changes to the Age Pension payment rates were indexed changes to the assets test thresholds for qualifying for either full or part pension payments.

The amounts in table 1 below are the maximum values of assets outside of a home (which is exempted from inclusion) that singles and couples can now hold before their Age Pension payments start to reduce under the Government’s taper rate. Payments are reduced by $3 per fortnight for every $1,000 of assets above the amounts in the table.

Table 1: Assets limits for receiving the full Age Pension

Your situation	Homeowner	Non-homeowner
Single	$314,000	$566,000
A couple combined	$470,000	$722,000

Source: Department of Social Services. As at 20 September 2024.

The amounts in table 2 are the asset cut-off points for receiving reduced Age Pension payments. That is, people aged 67 and over with assets above the maximum amounts shown are not entitled to receive any Age Pension payments. Those with assets below these levels will likely be entitled to some Age Pension, subject to also passing the income test.

Table 2: Assets limits for receiving a part Age Pension

Your situation	Homeowner	Non-homeowner
Single	$695,500	$947,500
A couple, combined	$1,045,500	$1,297,500
Illness-separated couple	$1,233,000	$1,485,000

Source: Department of Social Services. As at 20 September 2024.

Does having less add up to more income when the Age Pension is included? The answer will ultimately depend on the amount of financial assets being held and how they are invested.

Combining financial assets with the Age Pension

The term "sweet spot" is sometimes used to describe the situation where singles and couples are able to receive the full Age Pension, because they fall below the assets test limits, and also generate and withdraw additional tax-free income from financial assets through an account-based pension.

The term sweet spot implies that, by combining their personal income with the Age Pension, under the right circumstances people below the asset test minimums can actually earn more than people who are above the assets test limits.

There are some tax considerations. The Age Pension is considered a taxable payment from Centrelink. However, age pensioners can benefit from the Tax Free Threshold and also the Seniors and Pensioners Tax Offset (SAPTO), meaning that they will not pay tax if their total income is below $31,888 for each member of a couple or $35,812 for a single.

Separately, amounts drawn from an account-based pension (using accumulated super and earnings) are tax free.

As shown in table 1, under the new assets test limits, a single retiree owning a home can hold up to $314,000 in assets and still receive $1,144.40 per fortnight of Age Pension.

Similarly, a retired couple owning a home can hold up to $470,000 and still receive $1,725.20 per fortnight from the Age Pension. The assets test limits are higher for non-homeowners.

But keep in mind that assessable assets, as defined under the assets test, include home contents, personal effects, cars and other vehicles, real estate (excluding one's home) as well as financial assets such as superannuation, savings, and annuities.

Personal asset values can be substantial, which effectively translates into having a lower level of investable financial assets (for example, superannuation) than the minimum assets test thresholds.

Testing the assets test

The question is whether it's more financially prudent to be below the assets test limits on a financial assets basis, or above them? Put another way, does having less add up to more income when the Age Pension is included?

The issue here is that the answer will ultimately depend on the amount of financial assets being held and how they are invested.

As noted, under the Government's taper rate, every $1,000 held by singles and couples above the respective assets test limits in table 1 reduces their Age Pension payments by $3 per fortnight ($78 per annum net). So, to make up for that lost ground, individuals and couples need to generate a net 7.8% return on every $1,000 that they are above the assets test thresholds.

Singles or couples above the upper ends of the assets test thresholds in table 2 would need to generate $29,754.40 or $44,855.20 per annum net respectively from their financial assets to make up for not being entitled to receive any Age Pension.

In the 2023-24 financial year Australian listed property achieved a total return 24.6%, followed closely by U.S. shares (24.1%); International shares hedged (21.5%); International shares (19.9%); Australian shares (12.5%); Cash (4.4%); International listed property (3.9%); Australian bonds (3.7%); and International bonds hedged (1.9%).

Using the broad Australian share market as an example, a $695,501 investment at the start of the 2023-24 financial year (just above the maximum assets test limit for a single to receive some Age Pension) would have generated a gross return of 12.5% and grown by $86,937.62 by 30 June 2023.

A couple with $1,045,501 (just above the maximum assets test limit) with the same investment would have seen the value of their financial assets grow by $130,687.62.

But that's just one year of total returns, from one asset class. The 2024 Vanguard Index Chart shows the average total annualised returns over the last 30 years from six different asset classes.

Asset class	Average total return per annum*
U.S. shares	11.1%
Australian shares	9.1%
International shares	8.2%
Australian listed property	7.8%
Australian bonds	5.6%
Cash	4.2%

Source: Vanguard. As at 30 June 2024.

*Average total returns are from 1 July 1994 to 30 June 2024. Total returns assume all investment income earned was reinvested and exclude any acquisition costs, fees, and taxes.

It's important to keep in mind that asset class returns are not consistent and vary considerably from year to year. The best-performing asset classes in one year can become the worst-performing in the next. In some years asset classes can record negative returns.

Another consideration is that the top four asset classes above incorporate higher-risk growth securities, which can be more volatile over shorter time periods and may not suit retirees with a lower tolerance for risk.

In that context, investing amounts that are above the asset test thresholds into historically low-returning asset classes (such as cash) may not necessarily result in higher returns than people who have lower amounts of financial assets who are also entitled to receive the Age Pension.

Gisborne Ph: (03) 5428 0123 Sunbury Ph: (03) 9744 2400
Email: info@nixonfs.com.au Web: www.nixonfinancialservices.com.au
Bob Nixon (AR 264149), Joel Plowman (AR 1256299), Umair Javed (AR 467512) and Sharon Tee (AR 246173)
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The bottom line

The primary objective of superannuation is to build up savings that can be used to fund one's intended lifestyle in retirement. The Age Pension is designed to support the basic living standards of retirees.

Longevity risk – the risk of outliving savings – is a key concern for retirees in deciding how to draw down their superannuation during retirement.

"Most people rely on the Government for protection against longevity risk through the Age Pension, which provides a safety net for retirees who outlive their savings," according to the Intergenerational Report 2023.

Preparing well ahead for life in retirement is key. A good starting point for many Australians should be to seek out professional financial advice, especially in the context of retirement spending and understanding how the Age Pension may play an important role.

Source

https://www.vanguard.com.au/personal/learn/smart-investing/retirement/weighing-up-the-pension-and-assets-test

https://www.servicesaustralia.gov.au/assets-test-for-age-pension?context=22526

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nixon financial services pty ltd
corporate authorised representative

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