Australian Government
Department of Social Services

11 December 2013

Secretary
Senate Community Affairs Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir,

At the hearing into the *Social Services and Other Legislation Amendment Bill 2013*, the Committee requested that the Department provide a response on equity matters raised in the Financial Planning Association's (FPA) submission regarding schedule 11 of the Bill, which extends the deeming rules to account based income streams.

The schedule changes the social security income test treatment of superannuation account based income streams from 1 January 2015. This is a fair and common sense extension of the existing deeming rules to superannuation account-based income streams so that all financial assets are assessed under the same rules. It will make the system fairer as people with similar levels of financial assets will receive similar amounts of income support.

The current rules treat some people with the same level of assets differently. For example, two people with the same underlying assets: one has an account-based income stream with a balance of $200,000 while the other person holds the same assets directly. The person with the account-based income stream can receive $75.78 a fortnight ($1,970.28 a year) more in age pension compared to the person holding the assets directly.

Existing account-based income streams held by income support recipients immediately before 1 January 2015 will be grandfathered and continue to be assessed under existing rules - unless they choose to change products.

The FPA has suggested that the changes will be a disincentive for people to purchase these products and will increase reliance on the Age Pension. This is unlikely as significant tax concessions are provided for the superannuation system, including for superannuation income streams. For people over 60 years, the investment returns in superannuation account based income streams, and the income drawn down are tax free. The Department has had no negative comment regarding the changes contained in schedule 11 from the providers of these products or their representatives.

The FPA also states that the deeming rules target those with a smaller superannuation balance and compares people with a $200,000 and a $500,000 balance. However, this is a consequence of people being assessed under either the income test or the assets test. At $500,000, a person will be assessed under the assets test. Regardless of whether they have their assets in superannuation or non-superannuation holdings, they will receive the same level of pension. That is, the pension assets test already assesses financial assets consistently regardless of how they are held.

The person with a $200,000 balance will be assessed under the income test and as shown above, will get a different pension payment depending on whether it is held directly or in superannuation. That is, the pension income test does not currently assess income consistently for superannuation account based income streams and financial assets held directly. Thus the schedule changes the social security income test treatment of superannuation account based income streams to ensure equity for people assessed under the income test.

A further issue raised by the FPA is that the measure will reduce competition between financial products and product providers as non-account based income stream products, such as lifetime income streams or fixed term income streams, will not be impacted by this change. However, people with these products have no access to their capital, no investment choice, and no ability to change the amount of income they receive each year to reflect changes in the deeming rates; it would not be appropriate to subject these products to deeming. In addition, the income test treatment for these products already assesses an appropriate amount of income.

Finally, the FPA suggests that the grandfathering provisions will "lock" pensioners into a particular product or provider as they would lose their concessional treatment if they change. Under the current rules, the level of concessional income test treatment also changes if an individual changes their income stream provider. Therefore, a pensioner who has a grandfathered account based income stream and wishes to change income stream providers, will continue to consider the same range of factors including cost of fees, fund performance, account balance, minimum drawdown amount, actual drawdown level, and the level of concessional treatment under current income test rules.

Unlike the current rules, deeming removes bias when making investment decisions based on age pension expectations. By treating similar assets in a consistent way the extension of deeming to account-based superannuation income streams will help ensure that social security means test settings do not distort people's investment decisions.

I hope the Committee finds this information of use.

Yours sincerely,

Ian Joyce
Ag Branch Manager
Seniors and Means Test