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Government Relations

Barton Deakin Brief: Cuts to Deeming Rates

15 July 2019

Overview

Yesterday, Treasurer, the Hon Josh Frydenberg MP and Minister for Families and Social Services, Senator the Hon Anne Ruston announced cuts to the deeming rate for welfare recipients, including age pensioners. The Federal Government will invest $600 million across the next four years in order to finance the adjustment.

For pensioners, the deeming rate on the first $51, 800 of a single person's financial investment (or the first $86,200 for a couple) will drop from 1.75% to 1%, in order to better accord with current interest rates. The deeming rate for balances above these figures will drop from 3.25% to 3%, leaving pensioners in this bracket better off by $804 per year if they are single and over $1000 better off if they are in a couple.

The lower deeming rate is expected to affect approximately one million Australians, 630,000 of these being age pensioners. Other payments affected by changes to the deeming rate include the carer's pension, the disability support pension, the parenting payment and payments to veterans.

Payments under the new rate will start from the end of September, however, will be backdated to July 1. This will mean that a number of welfare recipients will receive a lump sum payment to catch up on the increases across the 10-week period.

What are deeming rates?

Deeming rates and rules are used to asses income from a welfare recipient's financial assets. It assumes that these assets earn a set rate of income, regardless of what they really earn.

Examples of such kinds of assets are:

- Savings accounts and term deposits
- Superannuation account-based income streams
- Managed investments, loans and debentures
- Listed shares and securities*

*this list is non-exhaustive

A deemed income is considered to be a welfare recipient's income under the Department of Human Services' income test. This rate is an assumption about how much a person is expected to earn on a particular asset and is used to determine the amount of government payments a person should receive if they have additional earnings.

Why has there been a change?

While interest rates have fallen over the past four years, the deeming rate has remained stagnant. This has meant that even though many retirees have been earning less, their pension entitlements have not been adjusted to counter any reduction in invested income.

Minister Ruston advised that "… under the new rates, age pensioners whose income is assessed using deeming will receive up to $40.50 a fortnight for couples, $1053 extra a year and $31 a fortnight for singles, $804 a year".

However, it is estimated that 75% of pensioners will not be affected by these changes to the deeming rate.

Further Information

For further information, see the media release from Minister Anne Ruston here.

Alternatively, please don't hesitate to contact Grahame Morris on +61 411 222 680 or Georga Nonnenmacher on +61 457 662 422 for further information on changes to deeming rates.