Government Benefits

Asset and Income Tests

Aon Hewitt Financial Education Series

Centrelink uses an Asset Test and Income Test to determine your entitlement for pension and allowances. The amount paid to you is the lower of the two amounts derived under the income test and asset test.

Asset Test

You may own a certain level of assessable assets before your pension is reduced or allowance is cancelled.

When applying for an allowance you need to have assets below a certain level, otherwise you will receive no allowance.

When applying for a pension, if you have assets below the lower threshold you will receive the full pension. If you have assets above the upper threshold you will receive no pension, and if you have assets between the two thresholds your pension will reduce depending on how much over the lower threshold you are.

If you are a member of couple, the total assets for both of you are included for assessment. Each of you are then assessed under either the pension asset test or the allowance asset test, depending on which benefit you are applying for.

If you are single, you have lower thresholds than a couple.

What assets are counted?

Centrelink takes into account most of your property and assets for assessment, including real estate, financial investments like cash, shares and term deposit, super investments (if over age pension age), business assets, funeral investments, assets given away and personal assets such as motor vehicles, boats, caravan etc.

Centrelink will not count some assets such as your principal home, proceeds from selling your principal home if you are going to use the money to purchase a new principal home (for 12 months), super investments (until you reach age pension age), cemetery plot and prepaid funeral to name the most common.

Home owner or Non-home owner?

There are different limits depending on whether you are a homeowner or non-homeowner. Home owners have lower limits as their home is not counted.

Income Test

When calculating your entitlement under the income test, Centrelink will assess your income from all sources, including any salary and wage income, and investment assets. However, when determining the income from financial assets you won't be assessed on the actual income you receive, instead they will be deemed to earn a certain rate.

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What income does Centrelink assess?

Income for Centrelink purposes includes any amounts that you earn from employment, income from sole trader or partnership businesses, rental income, overseas pensions, trust distribution and reportable super contributions. Income from your retirement income streams may also be assessed along with income from your financial assets which will be deemed as discussed below.

Deeming

On top of the income listed above, Centrelink will also deem financial assets. That is, instead of counting the actual income an investment earns, Centrelink will deem it to earn a certain amount. This is beneficial if you are earning above the deeming rate. For example, if you have $100,000 in a bank account earning 5% or $5,000 pa and the deeming rate was 3.5% for example, then Centrelink would deem you to be earning $3,500 not the $5,000 that you are actually earning. This allows you to receive an extra $1,500 without being penalised by Centrelink.

What is a financial asset?

The main type of financial assets assessed by deeming include savings account and term deposits, managed funds, listed shares, friendly society bonds, super funds held by people over age pension age, account-based pensions from 1 January 2015 and gifts above the threshold.

You are able to gift $10,000 in a financial year or $30,000 over 5 financial years (without exceeding the $10,000 in any one year). These limits apply if you are a single person, and also for a couple. This means if you are a member of a couple you cannot each gift $10,000 in one year without being penalised.

Gifts made in the five years before you apply for Centrelink benefits are also taken into account.

Example

Mary (65.5 years old) is applying for the Age Pension and is single. The principal home that she lives in is worth $1,000,000, she has an investment property worth $300,000 with rental income of $200 per week after expenses. She also has $100,000 in cash.

Under the asset test: The principal home is exempt regardless of how much it's worth. The total assessable assets consist of the investment property of $300,000 and the cash of $100,000 equalling $400,000.

Based on the asset test as at 1 July 2018, she is eligible for $468.85 per fortnight.

Under the income test: The net rental income of $10,400 is counted towards the income test; while the cash is a deemed asset, and will be deemed at a rate of $2,497 per year. Her assessable income will be $12,897 pa.

Based on the income test as at 1 July 2018, she is eligible for $743.58 per fortnight.

Mary is entitled to the lower of the two amounts, which will be the one derived from the asset test of $468.85 per fortnight.

You should speak to your financial adviser about your entitlement.