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Deeming rules for account based income streams

The Government has released a Bill into Parliament to extend the deeming rules for account based income streams commenced from 1 January 2015. Deeming rules assume financial assets are earning a certain amount of income, regardless of the income they actually earn.

The Bill is yet to pass through Parliament and therefore the proposal is subject to change.

From 1 January 2015, the social security deeming rules applying to financial investments are proposed to apply to:

- account based income streams (that is, account based pensions and annuities) with a commencement date of 1 January 2015 or later, OR
- account based income streams with a commencement date before 1 January 2015 and the individual was not receiving an income support payment immediately prior to 1 January 2015.

Grandfathering

There are grandfathering rules to assess certain account based income streams under the existing income test rules, that is, the annual payment less the social security deductible amount.

Income support payments that qualify for grandfathering include most social security pensions and allowances.

The initial guidance from the Department of Human Services outlined how individuals holding the low income health care card would be eligible for grandfathering. However, the legislation does not provide any grandfathering for low income health care card holders.

Where the primary beneficiary dies and the income stream reverts to a reversionary beneficiary, the grandfathering applies for the reversionary income stream provided:

- at the time of reversion, the reversionary beneficiary is receiving an income support payment, and
- since reversion, the reversionary beneficiary has been continuously receiving an income support payment.

Defined benefit pensions (eg from SMSF or defined benefit funds) and annuities (excluding allocated annuities) continue to be assessed under the existing rules, regardless of the commencement date.

How does this impact your clients (if legislation passes)?

Pensioners and allowees may wish to commence an account based pension before 1 January 2015 to ensure they receive the concessional income test treatment.

Clients with an account based pension may wish to consider applying for an income support payment before 1 January 2015, where practical to do so.

Clients may wish to retire before 1 January 2015 to commence the account based pension and receive age pension to be eligible for grandfathering.

You may wish to consider commencing a reversionary account based pension to continue the grandfathering for the reversionary beneficiary. However, take into account a possible reduced deductible amount for the primary beneficiary and the prospect that the reversionary beneficiary could be a non-pensioner due to their single status and asset/income position.

As changing product providers from 1 January 2015 results in deeming on the new account based pension, clients should ensure they are content with their current provider.

Account based pensions still provide concessional tax treatment. The income tested fee for aged care clients may increase if impacted under the proposed arrangements.

Currently, account based pension withdrawals impact the income test depending on whether you take the amount as a lump sum or pension payment. Under the proposed rules, no such comparison is necessary.

Presently, changing pension payments during the year impacts the assessment under the income test for the remainder of the financial year. This consideration is not required under the proposed rules.

Upon exiting a defined benefit fund, lump sum and pension options (or combinations of the two) may be available. From 1 January 2015, clients who take a lump sum and rollover to commence an account based pension, should consider the deeming of this arrangement, in comparison to the deductible amount of the defined benefit pension.

Clients receiving income support payments significantly exceeding the Centrelink deductible amount could be advantaged by deeming account based income streams.

Employer contributions and the new standard

As part of the SuperStream changes, employers will have new obligations when making contributions under a data and payment standard.

From 1 July 2014, employers with 20 or more employees must use the new standard when making contributions. Employers with 19 or less employees must use the new standard from 1 July 2015.

The standard requires data and payment to be sent electronically. The intention is to streamline the contribution process so that amounts are received in a timely and efficient manner.

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There is an exemption when contributions are made from a related party employer to a SMSF.

That is, the employer is exempt from sending data and payment in the standard.

How does this impact your clients?

Employer clients can comply with the standard by upgrading payroll software or engaging a service provider or clearing house. The default fund may also be able to assist.

Group insurance

Providing group insurance within your business can help to attract and retain staff, as well as provide a range of other benefits.

So what exactly is group insurance?

Group insurance is where a number of people receive insurance cover as a group, usually based on a set of standard conditions.

Rather than assessing each person individually, the insurance company will work out a level of cover and premiums for the whole group.

The main types of insurance offered as group policies are income protection (also called salary continuance), life insurance and total and permanent disability (TPD) insurance.

Life insurance pays a lump sum benefit to the estate of the employees if they die, while TPD pays an ongoing benefit to them directly if they're unable to work due to permanent illness or injury.

Trauma cover, also called critical illness insurance, is usually not offered under group schemes however there are some examples of this being provided to cover employees should they be diagnosed with a defined critical illness such as cancer, a heart attack or a stroke

How does this impact your clients?

If your clients are business owners, business insurance may not be something they have previously considered but may be interested in. Many businesses are putting a group insurance arrangement in place, in an effort to attract and retain the best people and make their business more attractive in a competitive environment.

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