Freeze deeming rates for an additional 12 months and create a fair and transparent way to set rates in the future.

Overview

- Deeming rates are used as part of the Age Pension income test; to determine eligibility for the Commonwealth Seniors Health Card and to determine co-contributions for aged care services.
- Since 2012, government undermined confidence among retirees by failing to reduce deeming rates in line with previous methodology (prior to 2012 the upper threshold followed the RBA cash rate, after 2012 the lower threshold followed the RBA cash rate) – see Figure 4 for details.
- While the federal government periodically reduced deeming rates after 2012, there was a view among retirees these changes only eventuated after political pressure.
- There is no logical basis for the significant change in methodology in 2012, except to reduce budget outlays.
- Older people welcomed the election commitment to freeze deeming rates for two years, but with the cash rate now much higher than the upper rate, there is a risk that when the freeze ends, a return to the post-2012 methodology will mean:
    - hundreds of thousands of pensioners will have their pensions cut;
    - some of those now eligible for a Commonwealth Seniors Health Card will lose this benefit; and
    - aged care costs will increase for those subject to means testing.

WHAT ARE WE CALLING FOR?

- Government should continue to freeze deeming rates for a further 12 months while inflation remains high.
- Government should use this time to establish a consistent and transparent methodology for setting deeming rates, one that reflects community expectations. This would stop any confusion about how rates are set when changes to interest rates occur in the future.
- A formal, transparent and consistent process for setting deeming rates would go some way to restore confidence among retirees.
- In doing so, the previous method (pre-2012), where the upper rate mirrored the RBA cash rate and the lower rate was a proportion of this, would be seen as a fair approach.

Why is the policy needed?

- With interest rates lifting 4% since the freeze was announced, any change to deeming rates will have a significant impact on the incomes of certain pensioners.

- Those affected will be:
  - full pensioners whose assets and income put them close to the point at which the full pension reduces under means testing rules; and
  - part pensioners either under the income test or under the assets test but close to coming under the income test.
- Some full pensioners would shift from a full pension to a part pension. Along with around half of all part-pensioners, those affected would see a decline in their pension income if the freeze was lifted and the rate reverted to the post-2012 method.
  - For example: A single homeowning part-pensioner with $320,000 of assets of which $250,000 are deemed assets would currently receive a pension of $1041.95 under the Age Pension assets test. If deeming rates reverted to a similar pre-freeze rate consistent with the cash rate (e.g., 4% - lower threshold and 6.5% - upper threshold) their deemed income would change from $170 per fortnight to $567 per fortnight (approx.). This person would then come under the income test and receive a pension of $915.20 per fortnight, a loss of $126.75 per fortnight compared to current deeming rates.
  - This loss of income would have a significant impact on the finances of pensioners currently struggling under cost-of-living pressures.
- Freezing the rate for 12 months and reviewing the deeming methodology would give affected pensioners time to plan for any change.

Budget impact

- A continuation of the freeze on deeming rates for a further 12 months would result in costs to the budget over future estimates due to higher Aged Pension payments and more CSHC holders being eligible for prescription subsidies under the Pharmaceutical Benefits Scheme (PBS).
- However, it is difficult to estimate the costs due to the lack of transparency around the methodology used to calculate deeming rates and a lack of clarity around how the rate might be set once the freeze was removed.

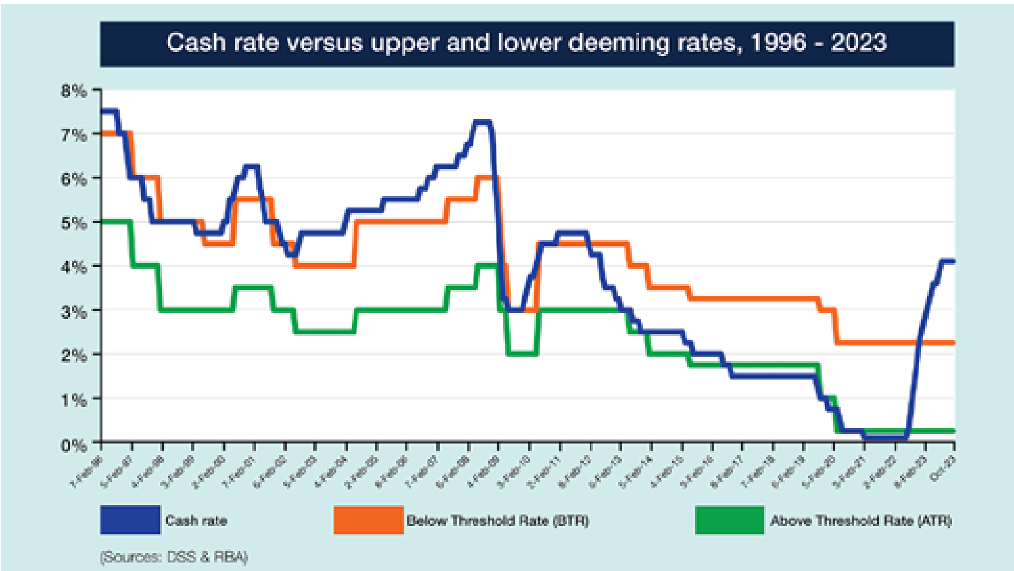

Figure 4: Deeming rates vs RBA cash rate (as at 31 October 2023)