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Budget's secret sting for pensioners and mature-age workers

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Pensioners, mature-age workers and self-funded retirees will be stung sooner than expected by the budget.

Those eligible for the part pension from next January will be hit by an effective 50 per cent tax as super payments are included in both means tests, financial advisers warn.

Worse, after July 1 this year those on concession cards which are available to pensioners could lose as much as $2000 a year, says Louise Biti, head of technical services at Strategy Steps, which advises financial planners.

The pension concession and Commonwealth Seniors Health cards offer travel, electricity, phone and council rate discounts in an agreement with the states.

But buried in the budget documents the government reveals it will be "terminating" this agreement after July 1, saving $1.3 billion over four years.

"It will hurt pensioners the most. This will cost $1000 to $2000 a year. No one was expecting that. Since it's not a direct payment to pensioners the government didn't want to highlight this," Biti says.

The separate abolition on September 20 of the "seniors supplement" attached to the Seniors Health card for self-funded retirees will cost couples $1320 a year.

But the biggest sting is the government's decision to count super drawdowns as part of the assets test from next January.

This will bring super into the deeming net where it is assumed to earn a certain return, as is the case for term deposits and other financial investments.

Currently super pension income is adjusted by dividing the balance by the pensioner’s life expectancy.

Under deeming, super will be simultaneously caught by both the assets and income tests.

For example, a 65-year-old with $250,000 in super on the full pension would, after January 1, be assessed as earning $8284, which is above the $7176 income threshold. Every dollar earned above $7176 would lose 50 cents of pension.

In a double whammy, you lose some of the pension to begin with, then another 50 cents in every dollar you earn if you keep a part-time job, financial planner Paul Moran, principal of Moran Howlett Financial Planning, says.

“Under the assets test you could work part-time to use up the income test threshold but now if you have a super pension you’ll lose half. The change amounts to a new tax of 50 per cent for many existing and soon-to-be pensioners and veterans. It’s a huge hit,” Moran says.

It will hit even harder in 2017 when deeming starts with balances of $30,000 (or $50,000 for couples) instead of the current $46,600/$77,400.

Those getting the age pension before December 31 will be exempted from the new super deeming rule. But this will also discourage anybody over 65 from remaining in the workforce, at the risk of being caught in the new rules from next year.

“There’s an incentive to retire if you reach 65 this year. Or you could resign, go on the pension and then go back to work part-time and start a super payment so long as you do it before December 31,” Moran says.

“These are not wealthy people. So getting $100 less a fortnight is very material to them,” he adds.

In another budget hit, the mature age worker’s tax offset for those in the workforce aged over 55 and earning less than $63,000 a year will be scrapped on July 1.

Although this will pay for the new $10,000 subsidy to employers for hiring older workers who had been on the dole for six months, Biti warns this could backfire.

“A boss might sack you and hire somebody else and get the $10,000,” she says.

Other budget booby traps include:

- The fringe benefits tax rising to 49 per cent for those earning over $180,000 paying the deficit levy.
- The franking credit from dividends drops from 30 to 28.5 per cent after July 1, 2015.
- A freeze on the thresholds for the private health insurance rebate and Medicare levy surcharge from July 1, 2015. This will reduce the value of the rebate for some and push others into the surcharge as wages rise.
- The abolition of the twice-yearly income support bonus on Centrelink and Veterans’ Affairs payments.
- The abolition of the dependent spouse tax offset from July 1.

One piece of good news that has escaped notice is Treasurer Joe Hockey’s claim that households will save “on average around $550 next year alone” from the abolition of the carbon tax.

And while the Medicare levy rises to 2 per cent on July 1, it appears the higher tax-free threshold of $19,400 due to start on July 1, 2015 has also been spared the axe.