

# The Great Pension Grab

By Lorraine May 2015

This is not financial advice !!!

The assets test for pensions may be changing in January 2017.

Under the current system pensioners lose \$1.50 per fortnight for every \$1,000 they have above a threshold.

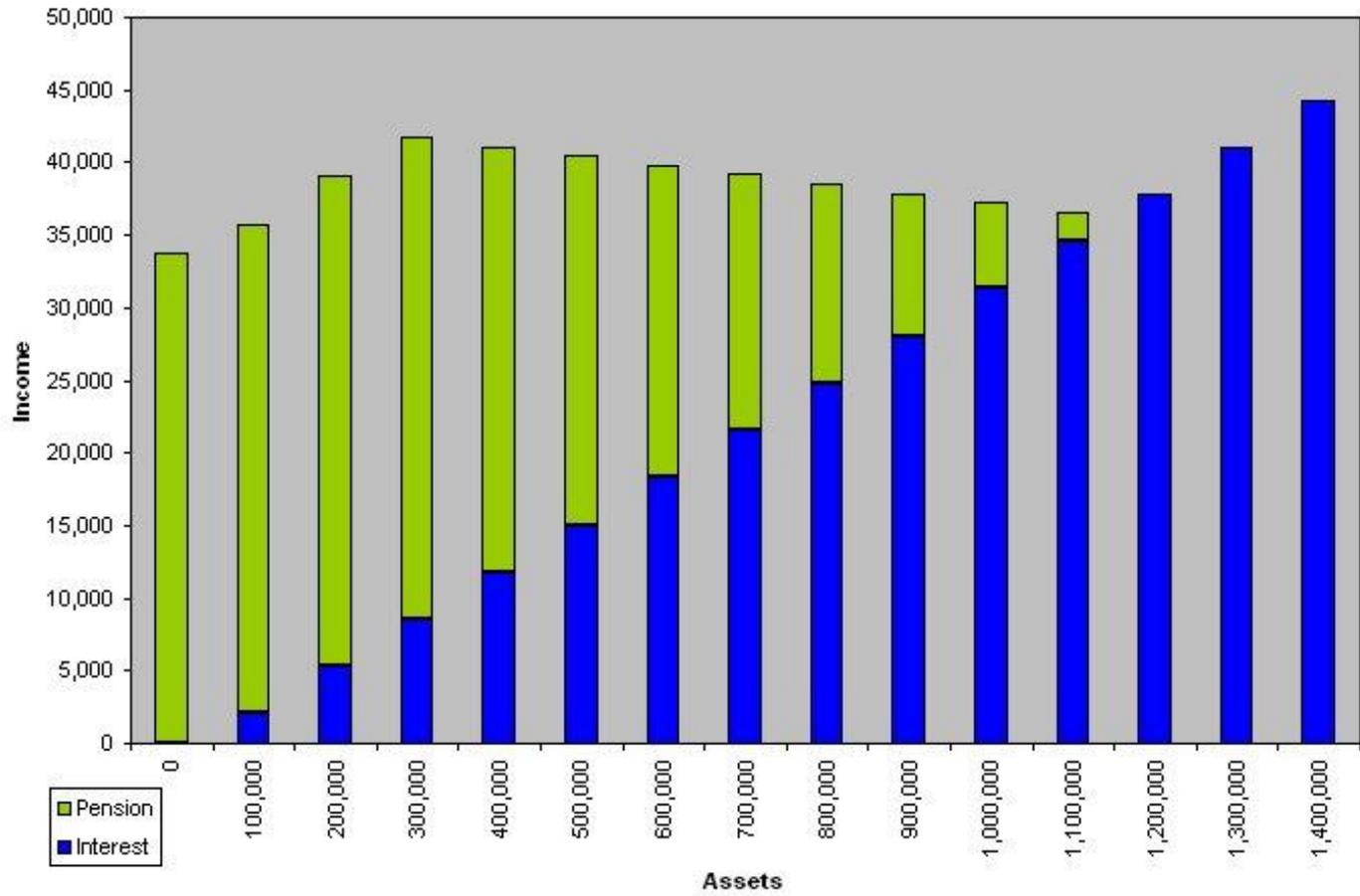
This results in a loss of \$3,900 of pension per year for every \$100,000 above the limit.

If this money is in a bank account at the deeming rate, the pensioner gains \$3,250 per year in bank interest.

So they have a net loss of total income of \$650 per year for every extra \$100,000.

Here is a chart showing this effect for a pensioner couple who own their own home.

Loss of total income with increasing assets



This situation is bad enough, but the planned changes make this far worse.

Under the new system pensioners will lose \$3.00 per fortnight for every \$1,000 they have above a slightly higher threshold.

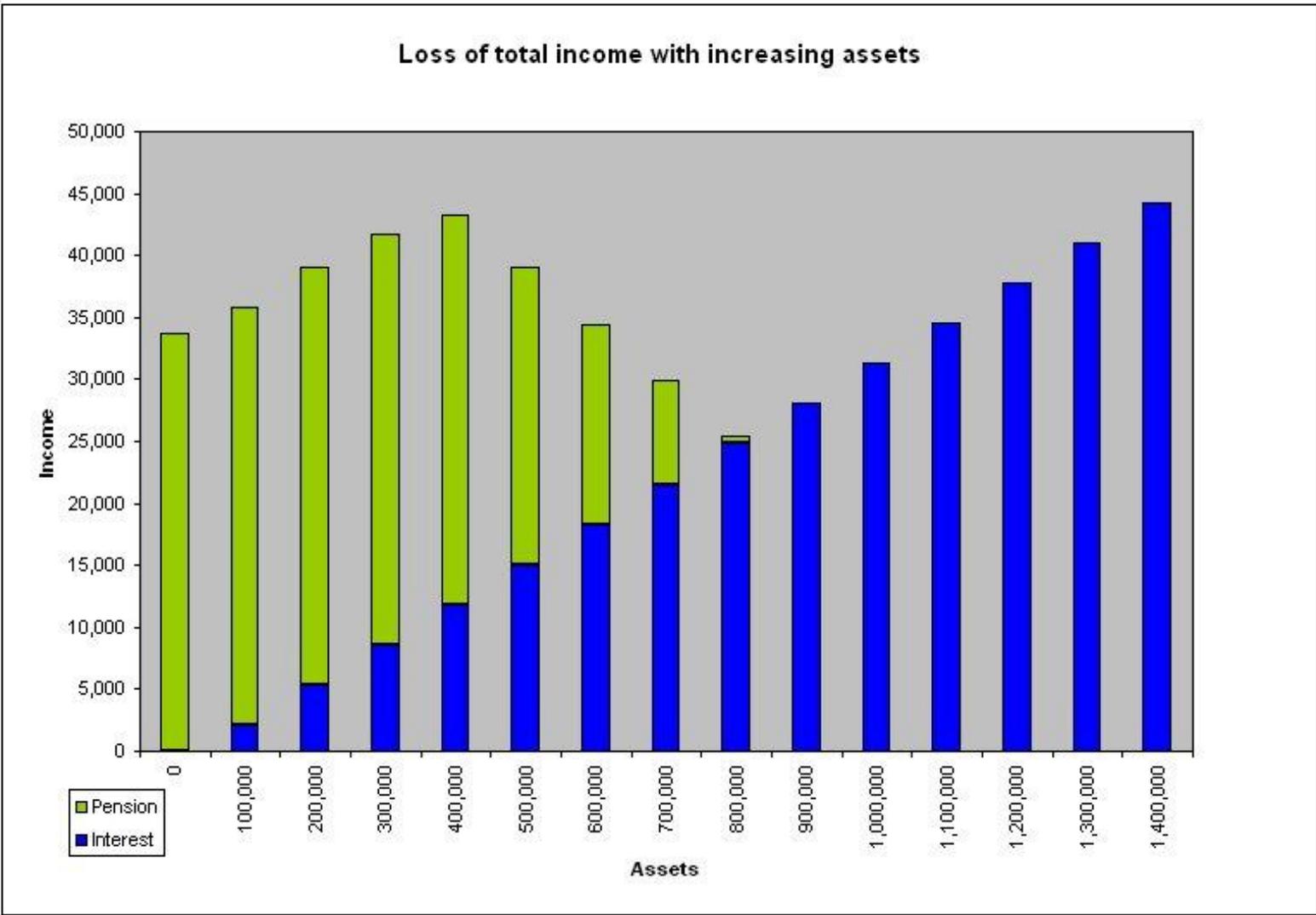
This results in a loss of \$7,800 of pension per year for every \$100,000 above the limit.

If this money is in a bank account at the deeming rate, the pensioner gains the same \$3,250 per year in bank interest.

So they have a net loss of total income of \$4,550 per year for every extra \$100,000 that they have saved.

Here is the chart showing the effect of the new system for a pensioner couple who own their own home.

Loss of total income with increasing assets

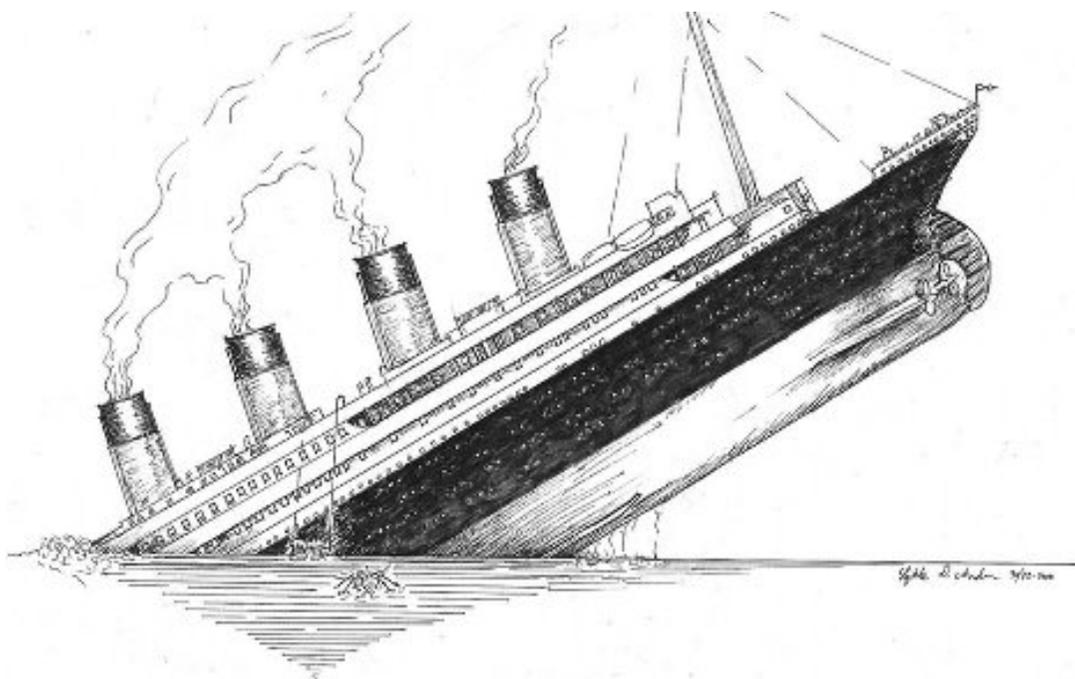


Here is the table showing loss of income for pensioners.

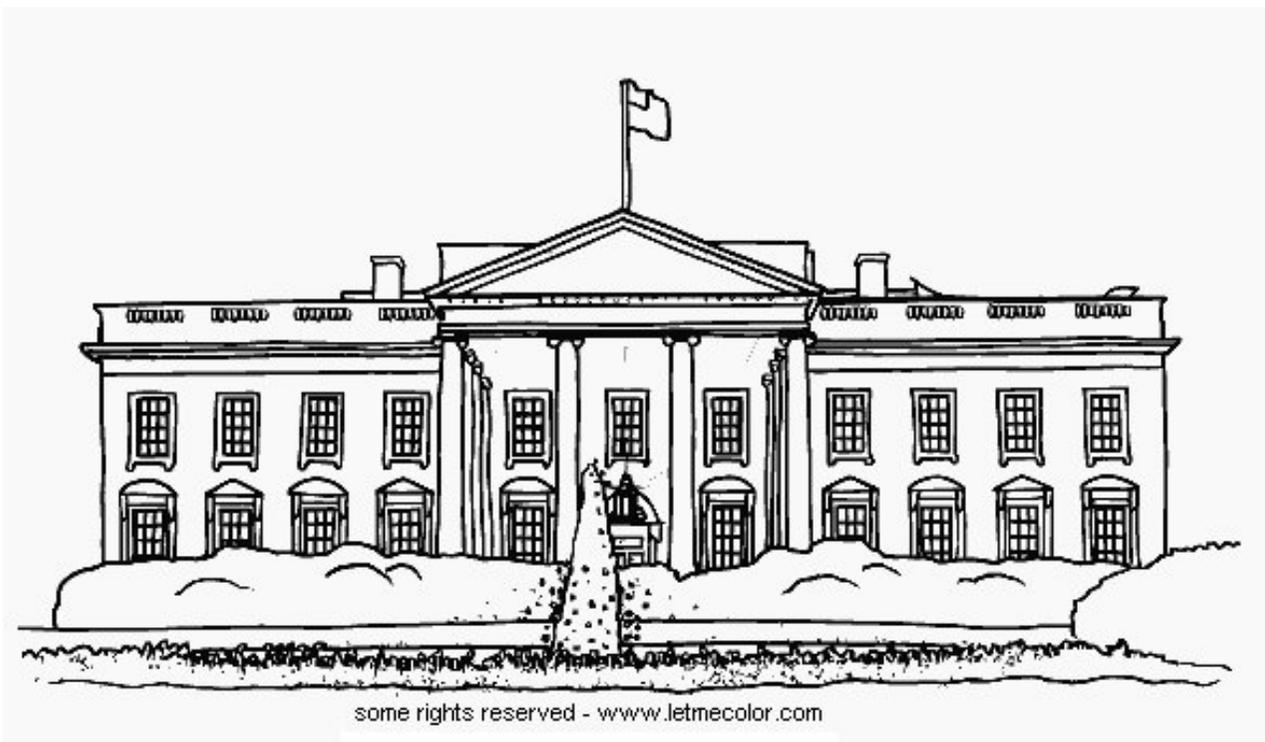
<b>Total Assets</b>	<b>Bank Interest</b>	<b>Current Pension</b>	<b>New Pension</b>	<b>Current Income</b>	<b>New Income</b>	<b>Loss of Income</b>
0	0	33,717	33,717	33,717	33,717	0
100,000	2056	33,717	33,717	35,773	35,773	0
200,000	5306	33,717	33,717	39,023	39,023	0
300,000	8556	33,131	33,131	41,687	41,687	0
400,000	11806	29,290	31,506	41,096	43,312	-2,216
500,000	15056	25,390	23,967	40,446	39,023	1,423
600,000	18306	21,490	16,167	39,796	34,473	5,323
700,000	21556	17,590	8,367	39,146	29,923	9,223
800,000	24806	13,690	567	38,496	25,373	13,123
900,000	28056	9,790	0	37,846	28,056	9,790
1,000,000	31306	5,890	0	37,196	31,306	5,890
1,100,000	34556	1,990	0	36,546	34,556	1,990
1,200,000	37806	0	0	37,806	37,806	0
1,300,000	41056	0	0	41,056	41,056	0
1,400,000	44306	0	0	44,306	44,306	0

A pensioner couple with \$800,000 will lose over \$13,000 of their income. This is not welfare for millionaires - these people are not millionaires.

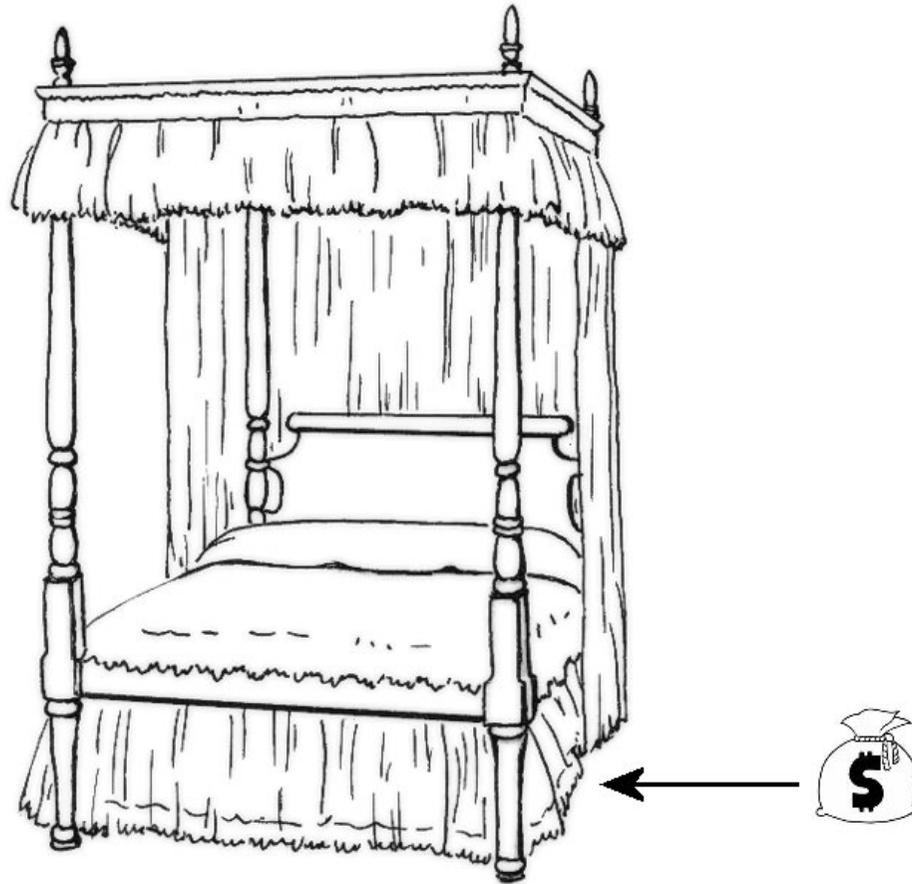
This couple could invest some of their money in a round the world cruise while they are still young and fit enough to enjoy it.



Or they could spend some money on extending their home or on renovations and landscaping. This would make sense as they would spend their retirement years in a nicer home.



Or they could invest some money in the bank under the bed.



Their return on money spent is

pension gain	7.80%
less lost interest	3.25%
giving a return of	4.55%

For these pensioners spending money gives a better return than saving it.  
The more you spend, the more you earn.

Unless you can save more than \$1.4m there is no incentive to save at all.

And the government wonders why most Australians have little or no interest in their super.

This is not financial advice.

Lorraine May 2015