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## **Pension changes will impact retirement adequacy**

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Impending changes to the aged pension asset test thresholds will have a significant impact on the number of couples able to achieve a comfortable retirement, according to new research from Willis Towers Watson (WTW).

The joint research from WTW and The University of Melbourne explores how retirement income adequacy has progressed in Australia. It finds that under the old rules, 62% of couples and 38% of singles were projected to meet or exceed the ASFA comfortable retirement income target. Under the new rules only 51% of couples and 37% of singles will meet the target.

From 1 January 2017, the taper rate will double from \$1.50 to \$3 per fortnight for every \$1000 over the minimum thresholds, meaning that the eligibility for the partial pension will phase out more quickly and at lower amounts than it has previously.

IOOF technical services manager, Josh Rundmann agrees the changes will see some couples lose a significant proportion of income, with some couples set to move from receiving up to \$13,000 per year in partial pension to \$0.

"The big change which is really going to impact a lot of people is in that middle bracket of wealth, they rely on that aged pension to help them meet their day to day living costs and that's just going to completely disappear," Rundmann said.

He notes there is a need for greater education among the Australian public, reiterating that the Age Pension is not a right or to be used to supplement an already high standard of living but was a safety net to ensure retirees are not living in poverty.

"A lot of people think of getting the aged pension as almost being an entitlement - I worked my entire life, I paid taxes my entire life and I should get a pension at the end of it - regardless of how well you've done along the way," Rundmann said.

"The aged pension is not an entitlement that everyone gets or that everyone should get to fund everyone's retirement to an amazing standard of living, it's really a safety net, a baseline standard of living to make sure people aren't living and going through their retirement in poverty."

He agrees that changes back to pre-2006 asset testing levels are necessary to

create a more sustainable pension system, but argues it will be a lot of the little day-to-day increases to the cost of living which will cause an immediate sting to those losing their partial pension.

"If people are losing the Age Pension, the changes allow them to automatically qualify for a Commonwealth seniors health card, which gives them access to the pharmaceutical benefits scheme but that card for example doesn't give them access to a lot of state based benefits," Rundmann said.

"In NSW for example if you hold a pensioner concession card which you can only get by being an aged pensioner, your motor vehicle registration is substantially reduced, close to \$0, but if you lose your partial pension you now have to pay full cost. So not only have you lost say \$4500 a year in your aged pension benefits but you've now got an additional \$600 to 700 in expenditure that you didn't previously had.

"Understanding those broader impacts is really important for trying to plan for meeting your cash flow needs and understanding how that impacts your longer term financial planning."

The WTW report concludes that while some reforms to the pension system are essential, a high number of Australians still rely on the aged pension as the primary source of income during retirement.

"A simple policy change to the age pension assets tests has reasonably significant implications for the retirement incomes of both current and future retirees. If Australians are to be encouraged to plan for retirement in advance, they need greater certainty on the level and availability of the age pension that will be payable to them once they retire," the report said.