



Providing support for retirees

The Government is helping retirees to manage the impact of volatility in financial markets on their retirement savings by temporarily reducing superannuation minimum drawdown requirements. The Government is also reducing social security deeming rates in recognition of the impact of the low interest rates on savings.

SUMMARY

The Government is temporarily reducing superannuation minimum drawdown requirements for account-based pensions and similar products by 50 per cent for the 2019-20 and 2020-21 income years.

The Government is also reducing both the upper and lower social security deeming rates by a further 0.25 percentage points in addition to the 0.5 percentage point reduction to both rates announced on 12 March 2020.

TEMPORARY REDUCTION IN SUPERANNUATION MINIMUM DRAWDOWN REQUIREMENTS

This measure will benefit retirees with account-based pensions and similar products by reducing the need to sell investment assets to fund minimum drawdown requirements.

The reduction applies for the 2019-20 and 2020-21 income years.

Age	Default minimum drawdown rates (%)	Reduced rates by 50 per cent for the 2019-20 and 2020-21 income years (%)
Under 65	4	2
65-74	5	2.5
75-79	6	3
80-84	7	3.5
85-89	9	4.5
90-94	11	5.5
95 or more	14	7

This measure will have no impact on the underlying cash balance for 2019-20 and a negligible impact in 2020-21.

Mike is a 66 year old retiree with a superannuation account-based pension

The value of Mike's account-based pension at 1 July 2019 was \$200,000. Under current minimum drawdown requirements, Mike is required by legislation to drawdown 5 per cent of his account balance over the course of the 2019-20 and 2020-21 income years.

This means Mike has to drawdown \$10,000 by 30 June 2020 to comply with the minimum drawdown requirements.

Following the temporary reduction in minimum drawdown requirements, Mike will now only be required to drawdown 2.5 per cent of his account balance, that is, \$5,000, by 30 June 2020. If Mike has already withdrawn over \$5,000 for 2019-20, he is not able to put the amount above \$5,000 back into his superannuation account.

On 1 July 2020 the value of Mike's account-based pension is \$180,000 (after drawdowns and investment losses). During 2020-21, Mike is required to drawdown 2.5 per cent of his account balance, which is \$4,500, instead of \$9,000.

As a result of this change to minimum drawdown requirements, Mike is able to preserve his capital while still drawing an income from his superannuation.

CHANGES TO SOCIAL SECURITY DEEMING RATES

As of 1 May 2020, the upper deeming rate will be 2.25 per cent and the lower deeming rate will be 0.25 per cent. The reductions reflect the low interest rate environment and its impact on the income from savings. The change will benefit around 900,000 income support recipients, including around 565,000 people on the Age Pension who will, on average, receive around \$105 more from the Age Pension in the first full year that the reduced rates apply.

The changes will be effective from 1 May 2020. This measure is expected to have a cost of \$876 million over the forward estimates.

Helen is a single part-rate age pensioner

Helen receives a single part-rate Age Pension. She has \$200,000 in financial assets with \$175,000 held in a term deposit which returns 1.5 per cent and the remainder in a cash transaction account earning a negligible rate of interest.

Under the former deeming rates, Helen's Age Pension would have been reduced by \$8.50 per fortnight as her income was above the income test threshold. With the change in deeming rates Helen has less deemed income and will now be eligible for a **maximum** rate Age Pension.

Leslie and Brian are an age pensioner couple

Leslie and Brian are an age pensioner couple. They have \$550,000 worth of financial assets. They hold \$300,000 in a superannuation account with a conservative investment strategy which returned around 5 per cent last year. They have invested \$130,000 in a term deposit with an annual return of 1.5 per cent and hold the remainder in a cash transaction account earning a negligible rate of interest.

Under the former deeming rates, Leslie and Brian's Age Pension would have been reduced by \$65 each per fortnight. Under the new deeming rates, Leslie and Brian's Age Pension will only be reduced by around \$32 each per fortnight.

FOR MORE INFORMATION

For more information on the Australian Government's Economic Response to the Coronavirus visit treasury.gov.au/coronavirus.