


Retirement explainer series

Age Pension and other support for retirees

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<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p>Technical rating</p> <p>Boffin</p> <p>Industry professional</p> <p>Novice</p>  </div>	<p>Brief synopsis: We outline the income support available to Australian retirees and discuss its significance. While the main focus is the Age Pension, we also discuss other sources of support. We highlight how many retirees will rely on the Age Pension and other support both as a key component of their retirement income and as a safety net that provides protection against inflation and longevity risk. We discuss how superannuation (super) fund trustees are required to account for the Age Pension under the Retirement Income Covenant, which creates a need to account for certain personal member circumstances including existence of a partner, assets outside of super and homeownership to gauge eligibility. How trustees might assist members to maximise their Age Pension benefits is also outlined. While most super funds have taken steps to incorporate the Age Pension and other support into their Retirement Income Strategies (RIS), we feel that there is much more that the industry might do.</p> <p>Questions addressed:</p> <ol style="list-style-type: none"> 1. What type of income support is available to Australian retirees from the Age Pension and other sources? 2. What determines the magnitude and eligibility for the Age Pension? 3. What are the implications for super fund trustees in designing retirement solutions and identifying the solution that may be suitable for a member? 4. How might super fund trustees assist their members to maximise benefits? <p>Key terms: Age Pension, social security, government support, retirement income, Retirement Income Strategies, retirement solutions, member behaviour, guidance</p> <p>Who should be interested? Retirement specialists, retirement leads, financial modellers, member experience personnel, financial advisers, people wanting a career in retirement income, government entities, commentators, e.g. the media</p>
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Introduction

This explainer outlines the significant support available to retirees through the Age Pension and other sources and discusses the implications for super fund trustees. The discourse occurs in five parts. Part A details the magnitude and rules around

the Age Pension. Part B discusses other available support. Part C considers the implications of available income support for retirement solution design. Part D outlines how super funds might assist members in accessing the Age Pension. Part E finishes with 'our take', which is an appeal for super funds to do more around this topic.

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Part A: Age Pension & supplements

The Age Pension is a fundamental component of Australia's retirement income system. It provides a core funding source of income for 2.6 million people or about seven out of ten Australian retirees². The stated purpose of the Age Pension, as defined by the Department of Social Services, is to support the basic living standards of older Australians who meet specific age and residency requirements.

The Age Pension and related 'supplements' together supplement any income drawn from super and other savings thus ensuring that retirees receive a basic level of income. Eligibility is subject to means testing (outlined below) so that payments may increase as a retiree's assets and/or income from other sources decline. Further, the Age Pension is indexed to maintain its real value (also outlined below). This design allows retirees in lower-to-middle wealth brackets to maintain a certain standard of living³.

Part C discusses the significant implications of the availability of the Age Pension (and other benefits) for retirees and the design of retirement solutions. The remainder of this section outlines the magnitude of available benefits and the eligibility rules, which are somewhat complex.

Available benefits

Figure 1 details the maximum available benefits from the Age Pension and related supplements, noting that these amounts are subject to means testing as discussed below. The amounts shown that are effective from 20 September 2025 and will be adjusted through indexation over time.

Figure 1: Maximum Age Pension related benefits
From 20 September 2025, A\$ per year

Retiree type	Age Pension	Supplements	Total
Single	\$28,072.20	\$2,574.00	\$30,646.20
Couple, each	\$21,161.40	\$1,939.60	\$23,101.00
Couple, combined	\$42,322.80	\$3,879.20	\$46,202.00

The full Age Pension rate itself comprises several components, including a base pension rate and additional supplements. Key among these are the pension supplement and the energy supplement. The

pension supplement is a significant part of the maximum Age Pension rate at \$2,207.40 for singles and \$3,328 for couples combined per year from September 2025. The energy supplement is also a component of the maximum rate and amounts to \$366.60 for singles and \$551.20 for couples combined per year. Almost all Age Pensioners receive these supplements.

Figure 2 presents SuperEd estimates of the real value of the full Age Pension for homeowners from age 67 through to age 92 formed at March 2025, including percentages of projected income over the period⁴. The estimated value is \$766,100 for a single and \$1,155,600 for a couple combined, and constitutes up to about 80% of income over retirement. The values are significant relative to the super balances of many retirees, who will be relying on the Age Pension as a dominant income source.

Figure 2: Real value of the Age Pension

Source: SuperEd, estimated at March 2025

Member type (homeowner)	Real value at age 67 to age 92	% of retirement income
Single		
Full Age Pensioner \$150,000 assets at retirement	\$766,100	79.3%
Part Age Pensioner \$600,000 assets at retirement	\$647,700	45.6%
Future Age Pensioner \$1.5m assets at retirement	\$276,800	12.4%
Couple, combined		
Full Age Pensioners \$150,000 assets at retirement	\$1,155,600	85.2%
Part Age Pensioners \$600,000 assets at retirement	\$1,124,800	58.6%
Future Age Pensioners \$1.5m assets at retirement	\$655,800	25.5%

Indexation

The Government adjusts the base rate of the Age Pension twice a year in March and September, with new rates usually applying around the 20th of these months. Indexation considers a combination of the Consumer Price Index (CPI), the Pensioner Beneficiary Living Cost Index and male average weekly total earnings (MAWTE). The Age Pension

² Federal Government expenditure on the Age Pension and supplements was \$59 billion in FY 2023-24.

³ The Age Pension is also instrumental in reducing income inequality among retirees.

⁴ The estimates are based on deterministic projections at a net return of 5.1% (6% gross less 0.9% fee) through to age 92 that are discounted by the CPI and summed. The Age Pension is indexed at the CPI. We plan to update these estimates occasionally, but not every six months.

rate is increased based on the higher of the two price indices⁵, and then benchmarked against MAWTE⁶. Since 2014, the maximum Age Pension rate has increased at a faster pace than wages, with the consequence that the benchmark at which MAWTE would apply is currently about 13.5% above prevailing Age Pension levels. The implication is that it would take 8.5-12.7 years at real wages growth of 1%-1.5% for the MAWTE benchmark to become binding and MAWTE indexing to apply. Nevertheless, the Age Pension offers potential to provide more than an inflation hedge over the long run under conditions of persistent real wage growth.

The *pension supplement* is indexed to the CPI and also adjusted in March and September. The *energy supplement* is not indexed. *Thresholds for the income and assets tests* are indexed to the CPI. They are adjusted in conjunction with the basic rates in March and September each year, with an additional index adjustment occurring in July.

Note on modelling implications: The presence of dual indexing to inflation and MAWTE raises the issue of what assumptions might be made about Age Pension indexation when undertaking modelling, noting that retirement income projections typically extend out at least 25 years (age 67 to age 92) if not longer. The real wage assumption is central. For instance, ASIC MoneySmart applies a default MAWTE growth of 3.7%, which is 1.2% above the CPI of 2.5%. The result can be quite substantial Age Pension payments at older ages, even after allowing for the need to close the buffer before MAWTE indexation applies. There are reasons to question whether this situation would prove sustainable over the very long run, to the extent that it could lead to the Age Pension becoming overly generous and costly to the federal budget. There is no clear answer to whether it is appropriate to assume that MAWTE indexation will always be in place; and we observe some researchers choosing to index at the CPI rate.

Determinants of Age Pension eligibility

Eligibility for the Age Pension depends on age, residency, and means-testing requirements.

- **Age requirements** – The minimum age to qualify for the Age Pension for both men and women is 67⁷. The Age Pension eligibility age is a significant milestone and can mark the point at which many people cease full-time workforce participation.

- **Residency requirements** – Applicants must be Australian citizens or permanent residents for at least 10 years in total, with at least five of those years being continuous. Some Age Pensioners also meet residency requirements under international social security agreements.
- **Means testing** – Services Australia (aka Centrelink) is responsible for delivering payments and determining Age Pension entitlements through the means test. Assessment comprises two distinct components of the income test and the assets test, which are detailed below. The purpose of these tests is to ensure the Age Pension is targeted to those most in need.

Means testing entitlement calculations

The income and assets tests both operate around threshold levels, below which are ‘free areas’ and above which the Age Pension payment is progressively decreased in line with what is known as the ‘taper rate’. The tests are assessed independently. Payments are set according to whichever test calculates a lower Age Pension, with failure to pass either test resulting in ineligibility.

Income test

Figure 3 summarises the income test thresholds and limits applying from 20 September 2025. The free area below the threshold represents the amount of income that may be earned before the pension rate is affected. The income test free area is up to \$5,668 per year for a single person and \$9,880 per year for a couple (combined). The pension amount is progressively reduced above the threshold by a taper rate of 50 cents for every additional dollar of income for both singles and couples. The consequence is that singles earning more than \$65,416 per year and couples earning more than \$99,954.40 become ineligible for the Age Pension.

Figure 3: Income test limits
From 1 July 2025, A\$ per year

	Full Age Pension income threshold ('free area' limit)	Part Age Pension disqualifying limit (given taper rate)
Single	\$5,668	\$65,416
Couple, combined	\$9,880	\$99,954.40

⁵ Historically the difference in growth between these two price indices has been quite small.

⁶ The benchmarks are 27.7% of MWATE for singles and 41.76% of MAWTE for couples.

⁷ Historically, the eligibility age was gradually increased to reach 67 years on 1 July 2023. Currently no further increases to the eligibility age are legislated.

Further complications exist beyond the above baseline eligibility criteria. The 'Work Bonus' scheme was put in place on 20 September 2009 to encourage continued workforce participation among eligible pensioners. The scheme exempts pensioners and eligible veterans from the first \$300 of fortnightly assessable income from work (equivalent to \$7,800 per year) being counted for the income test. Further, income in excess of \$300 may be deducted from a Work Bonus income bank before the income test begins to apply. A \$4,000 starting balance is granted into the income bank upon receipt of an eligible pension payment, and any unused portion of the \$300 exemption can be accumulated in the income bank balance to a maximum of \$11,800⁸.

Another important feature of the income test is the application of 'deeming rules' to financial investments in calculating income for social security purposes. These rules assume a certain rate of income from financial investments, irrespective of actual earnings. Per [Services Australia](#), the earning rate from 20 September 2025 is deemed at 0.75% on financial assets up to \$64,200 for singles and \$106,200 for couples (combined), and then 2.75% over these thresholds. These deeming rates are periodically reviewed by the Minister for Social Services and can change without warning.

Assets test

The assets test follows a similar structure to the income test except that it evaluates assets and distinguishes between homeowners and non-homeowners. It operates through a free area up to defined asset thresholds, above which a taper rate is applied where the Age Pension is reduced by \$3 per fortnight (equivalent to \$78 per year) for every \$1,000 of assessable assets held above the threshold. The assets test references a wide range of other assets including super balances, financial assets outside super, business interests and certain personal assets. While the principal residence (i.e. family home) is typically excluded from the value of assets used in the test, differing thresholds are applied to homeowners and non-homeowners. Figure 4 details the assets test limits.

Figure 4: Assets test limits
From 1 July 2025, A\$ per year

	Full Age Pension asset threshold ('free area' limit)	Part Age Pension disqualifying limit (given taper rate)
Single, homeowner	\$321,500	\$704,500
Single, non-homeowner	\$579,500	\$962,500
Couple combined, homeowners	\$481,500	\$1,059,000
Couple combined, non-homeowners	\$739,500	\$1,317,000

The asset values at which a retiree becomes eligible for a part Age Pension and then the full Age Pension are noteworthy, as the assets test is often the binding constraint on Age Pension eligibility⁹. While there is an absence of up-to-date data on household wealth at retirement ages, it seems likely that a majority of Australians will either retire on assets below the disqualifying limits, or otherwise fall below that limit at a point and hence become Age Pension recipients at some stage during their retirement. This underpins the importance of taking the Age Pension into account when designing retirement solutions to suit the needs of a majority of members.

Part B: Other support for retirees

Beyond the Age Pension, older Australians may be eligible for various other social security benefits and concessions that significantly enhance their living standards and overall retirement outcomes. This support is an integral component of Australia's retirement income system. It supplements the Age Pension and other sources of income and underwrites some potentially significant costs related to old age such as health expenditures and entry into aged care facilities. Treasury's [Retirement Income Review](#) of 2020 pointed towards the significance of these other support mechanisms and the fact that their value was generally underappreciated.

⁸ The most common reason that 67-year olds do not qualify for the Age Pension is they are still working and thus fail the income test. The fact that the Age Pension produces taxable income and the Age Pension taper rates are aggressive (50% of each dollar earned) above the work bonus thresholds means that continuing to work part-time may not bring home much incremental take-home pay as effective marginal tax rates from employment income are

very high. This serves as a significant disincentive to pursue additional work after age 67.

⁹ This is a function of the deeming rates of 0.75% up to \$64,200 per single (\$106,400 for couples) and then 2.75% above these levels, which generate deemed income sitting below the income test across a wide spectrum of those retirees with only financial assets and no other income sources. This situation is likely to remain unless deeming rates are increased significantly or taper rates adjusted.

Below we outline the other key sources of support available to retirees.

- **Pensioner Concession Card (PCC)** – The PCC is automatically provided to individuals who receive the Age Pension, among other eligible government payments. This card grants access to a broad array of concessions and subsidised services. Key benefits include subsidised pharmaceuticals through the Pharmaceutical Benefits Scheme (PBS) and bulk-billed medical appointments. Further, state and territory governments and local councils offer various discounts, such as reduced rates for public transport, utilities, and council rates. These concessions can add up to significant value, with retirees benefiting from zero- or low-cost access to health, aged care and other government services.
- **Commonwealth Seniors Health Card (CSHC)** – The CSHC offers substantial benefits in retirement. It expands the scope of available support as it is frequently available to those over 67 who are *not eligible* for the Age Pension (noting that Age Pensioners are already entitled to all the benefits provided by the CSHC, and more). It is estimated that the discounts associated with the CSHC could amount to \$2,000-\$3,000 per year, although the benefits may be much greater in some states that offer discounts on additional services. Eligibility for the CSHC is determined primarily by an income test, while the Age Pension also includes an assets test. This income test is indexed to the CPI and updated on 20 September each year. Income thresholds for the CSHC as effective from 20th September 2024 are:
 - Singles: \$99,025
 - Couples: \$158,440
 - Illness-separated couples: \$198,050, with an additional \$639.60 per year paid for each child in care
- **Commonwealth Rent Assistance (CRA)** – The CRA is a tax-free payment provided to eligible private renters who are also receiving social security benefits, including the Age Pension. It serves as a supplement to the Age Pension, and is specifically designed to improve the living standards of those facing rental costs. Approximately 22% of all CRA recipients also receive the Age Pension. CRA covers 75% of rental costs above a minimum threshold, up to a maximum amount. For a single person without dependent children, the maximum amount is \$215.40 per fortnight (\$5,600.40 per year), while for a couple without dependent children, it is \$203.00 per fortnight (\$5,278 per year) combined.
- **Tax benefits** – Super balances in the retirement phase incur zero income tax, although limited by

the transfer balance cap on assets that may be placed into tax-free retirement accounts. The cap was set at \$2 million for 2025-26 and is indexed to the CPI. This allows retirees to generate a negative effective tax rate through dividend imputation credits. In addition, seniors and pensioners tax offsets act to reduce tax obligations, allowing Age Pensioners with incomes up to certain thresholds to pay no income tax.

- **Other assistance and concessions** – Australian retirees also benefit significantly from access to free or heavily subsidised health and aged care services. Although health expenses typically increase with age, a large portion of these costs are covered by public expenditure. Similarly, aged care services receive substantial government subsidies, including home care packages and means-tested access to aged care homes. Additionally, many businesses in Australia offer various discounts specifically for pensioners.

Part C: Available income support and retirement solution design

We now consider the implications of availability of income support for retirement solutions formed by super funds under the Retirement Income Covenant (RIC). We first cover the financial nature of the Age Pension and other support, before outlining a few notable ‘special cases’. We then connect these features to retirement solution design and finally what trustees need to know about members to offer them a solution that is suitable for their needs.

Financial nature of the Age Pension

The Age Pension (and supplements) is in essence a government-supplied real fixed lifetime income stream (or LIS, discussed in [Explainer #9](#)) that is made available on a means-tested basis. It plays four related roles:

- **Income safety net** – The Age Pension underwrites a certain level of income, acting as an income floor.
- **Longevity protection** – As retirees can receive payments for life upon outliving other savings, the Age Pension effectively hedges longevity risk.
- **Inflation hedge** – Indexation of payments means that the Age Pension helps hedge against inflation (i.e. increases in the cost of living).
- **Buffer against investment risk** – This can be seen from two perspectives. First, the Age Pension may be viewed as a defensive asset given it provides a risk-free income stream. The presence of the Age

Pension thus decreases market risk exposure from a total portfolio perspective. Second, poor investment returns reduce the value of other financial assets under the means testing, which can lead to increased Age Pension payments (and vice versa for strong returns)¹⁰. In this way, it offers a partial hedge against investment return fluctuations, especially part pensioners in the assets test taper zone.

The Age Pension is thus a significant consideration for retirement income planning. It is a major source of retirement income for the majority of Australian retirees given prevailing wealth distributions at retirement, and because many retirees will become eligible at some stage if their assets are drawn down to fund income or fund lump sums for other purposes. It is estimated that the Age Pension provides more than half of the retirement income for more than half of retired Australians, and that 80% of people will be eligible for it by the time they reach age 80.

Financial nature of other support

The other support provided to retirees as discussed in Part B holds additional relevance for two reasons:

- *Income supplementation* – Other available support effectively supplements the income of retirees either directly (e.g. CRA, imputation tax credits) or indirectly through access to services and discounts (e.g. PCC, CSHC, pensioner discounts) that serve to reduce the amount of income required to deliver a given standard of living.
- *Insurance mechanisms* – Some of the benefits available to retirees effectively provide insurance against certain risks. In particular, Australia offers a substantial safety-net against medical expenses and entry into aged care for those who cannot afford it, both of which can amount to potentially significant expenditures especially at older ages.

Significance for retirement solution design

The existence of the Age Pension and other support available to retirees is a key consideration for super

fund trustees in delivering on their obligations under the RIC. The RIC requires trustees to develop a RIS to assist members to achieve and balance the three objectives of: (a) maximising expected income, (b) managing risk to expected income, and (c) providing flexible access to funds (see [Explainer #1](#)). Below we discuss the presence of the Age Pension and other support in the context of the RIC objectives.

Income objectives

The presence of the Age Pension and other support simultaneously boosts expected income and helps to manage income risk. We discuss below what trustees can do to assist members to maximise the benefits, most notably in Part D. In the context of retirement solutions, the implications for delivering on the two RIC income objectives primarily operate through significantly reducing income risk. The availability of income safety nets that last for life limits the need to guarantee a minimum amount of income through a retirement solution and to protect against running out of assets, while enhancing capacity to take investment risk, in the following ways:

- *Increased capacity to accept investment risk* – Availability of income safety nets provides more room to take investment risk (i.e. invest more in growth assets)¹¹ in pursuit of higher expected returns and hence greater expected income through reducing the consequences that flow from poor investment returns¹². Part Age Pensioners just above or within the assets test taper zone in particular should be more able to tolerate investment risk.
- *Less need for fixed LIS* – The role for fixed LIS (i.e. lifetime annuities paying a given income amount) within a retirement solution is diminished and possibly nullified to the extent that the Age Pension and other support performs this role. Note that there may still be call for allocating to investment-linked LIS to capture mortality credits and provide additional longevity protection while remaining invested in growth assets (see [Explainer #9](#)).
- *Scope to draw more income* – Availability of income safety nets can support drawing more income from invested assets on the basis of lessened potential

¹⁰ For part Age Pensioners, the means test results in less downside risk to retirement income as the impact of poor returns are buffered by a \$78 rise in the Age Pension for each \$1,000 decline in assets. The converse applies for strong returns. Further, retirees ineligible for the Age Pension might be viewed as having been granted a type of put option by the Government, which they may exercise if poor returns results in them entering the eligibility region. Conversely, retirees at the upper end of the means test free area have notionally granted the Government a call.

¹¹ The fact that the Age Pension provides some protection against the rising cost of living can also reduce the benefit from investing in inflation hedges at the margin, although this effect should be minor.

¹² An alternative perspective is that retirees can take more investment risk (i.e. growth exposure) via their own assets as the Age Pension acts as a risk-free fixed income component of the retiree's portfolio.

for adverse consequences. In particular, the need to restrict drawdowns in order to avoid running out of assets and hence income is diminished to the extent that an acceptable safety net exists. Drawing more income earlier in retirement can raise expected income during retirement, considering that the probability of survival decreases with age (see [Explainer #12](#)). Drawing more income earlier in retirement increases the chances that a retiree will enjoy their assets while they are best able to do so while reducing the chance of dying with substantial unused assets.

These considerations are particularly pertinent for retirees who view the Age Pension and other support as an adequate safety net. This may include retirees in lower socio-economic demographics and those who own their own home, as these groups may be able to live more comfortably on less income.

Flexible access to funds

The need for flexible access to funds can be reduced by the presence of the Age Pension and other support largely through the availability of various insurance mechanisms. [Explainer #3](#) identified four motivations for desiring flexible access to funds:

- (a) Meeting significant yet unplanned spending needs not met by regular income, i.e. a precautionary savings motive
- (b) Providing a bequest
- (c) Supporting access to aged care
- (d) Ability to alter course, i.e. flexibility to respond to change or opportunities

Through this lens, the need for flexible access to funds is reduced in two ways. First is through the support mechanisms that can assist with meeting unplanned spending needs, most notably health expenditures. Second is the availability of (means-tested) support to access aged care lessens the necessity of holding back some funds for this purpose (most notably for non-homeowners).

Notable cases

We expand on some notable ‘special’ cases where availability of the Age Pension and other support can interact with particular member circumstances to impact on retirement solution design.

¹³ The Commonwealth Government’s [Home Equity Access Scheme](#) provides home equity loans on relatively attractive terms.

¹⁴ Confidence is the subject of [Explainer #13](#).

Renters vs. homeowners

There is no doubt that homeownership is an enormous advantage in retirement. Homeowners go into retirement having a huge asset that is not counted for Age Pension eligibility and live without needing to pay rent. There are three implications:

- Homeowners require lower income to deliver a given standard of living given no need to pay rent.
- A family home can be a significant backstop if one is really needed. It can provide access to capital through sale or downsizing or a home equity loan (i.e. reverse mortgage)¹³. It can fund entry into aged care. While most retirees do not use the option to access additional capital from their family home, the fact that the option exists is significant.
- Owning a home may provide retirees with the confidence¹⁴ to draw more income and invest in higher returning growth assets.

The advantages enjoyed by homeowners over non-homeowners is far from neutralised by government support for renters, with the CRA being far less than the typical rent being paid by retirees¹⁵. Neither do differences in the Age Pension assets test thresholds for homeowners and non-homeowners make up for the difference. Accordingly, renters are a quite vulnerable group in retirement¹⁶.

Homeownership status matters for the retirement solution that is suitable for a retiree in two ways:

- *Income needs* – Renters may need higher levels of income to cover rent. This can require greater drawdowns and targeting a higher level of income when operating under an income target objective (see [Explainer #2](#)). There may also be a case to provide renters with a minimum or floor amount of reliable income in excess of the Age Pension through including a real fixed LIS in the mix.
- *Need for flexible access to funds* – Homeowners should have less need for flexible access to funds as a home provides a substantial backstop.

Meeting the needs of renters will ultimately be limited by their available assets. It makes little sense for renters to draw down more income than is affordable and sustainable. The ability for renters to secure enough income to pay the rent and hold aside some flexibly accessible funds is also limited by available funds. In short, retirees who are renters will often face the reality of needing to make some

¹⁵ The Grattan Institute discusses the inadequacy of rent assistance in its [Renting in retirement: Why Rent Assistance needs to rise](#) report of February 2025.

¹⁶ See Treasury’s [Retirement Income Review](#) of 2020.

difficult trade-offs that trustees cannot resolve (but could help members to better understand).

Full Age Pensioners with low balances

Retirees with low balances at retirement are likely to be relying on the full Age Pension, unless they or their partner have significant assets outside of super. Some super funds intimate that many such members would prefer to live off the Age Pension and use their super balance as a type of 'bank account' they can access as required. Such members might reasonably be placed on the minimum drawdown rules so that as much of the balance as possible remains available to access as needed. Better still would be investing their balance in a 'contingency' or 'rainy day' account (see [Explainer #3](#) and [Explainer #7](#)) with no drawdown requirements, although a policy change would be needed to facilitate this type of account¹⁷.

Part Age Pensioners

Retirees with higher balances that are either part Age Pensioners at retirement or likely to enter the taper zone at some stage face the issue of how to optimise the use of the Age Pension alongside their super balance and other assets in generating sustainable retirement income. It may be beneficial to increase drawdowns when in the Age Pension taper zone to maximise expected income to the extent that the increase in the Age Pension more than compensates for any downside from drawing more income earlier and leaving less income for later. Modelling supports this idea¹⁸, which might be encoded into drawdown rates¹⁹ embedded in retirement solutions offered by super funds²⁰.

The Age Pension and LIS

We noted above that the presence of the Age Pension may crowd out the need for fixed LIS to provide longevity protection, particularly for members with modest means whose needs are largely met by the Age Pension. With this caveat in mind, it is worth

highlighting that investing in a LIS offers some potential to boost Age Pension eligibility and hence increase expected income, in particular through investment-linked LIS (see [Explainer #9](#)).

LIS set up as "Innovative Retirement Income Streams" qualify for special Age Pension treatment²¹. Only 60% of the purchase price of such products are assessed under the assets test for Age Pension purposes up until age 84 (or for 5 years if purchased at 84 or older); and only 30% after age 84. Further, income payments are assessed at 60% of gross payments under the income test once they start.

While these rules were originally designed with the intent of establishing neutrality between LIS and other forms of retirement savings, there exist some inconsistencies that open up potential for providers to design LIS in a way that can enhance Age Pension access. The fact that means testing references the initial capital contributed indexed at a deeming rate²² means that growth in the value of capital through investment returns is not accounted for. This is particularly relevant for investment-linked LIS where expected returns can significantly exceed the deeming rate. Astute LIS design can thus deliver an Age Pension uplift, specifically for part Age Pensioners who hold investment-linked LIS as part of their retirement portfolio²³. This enhances the case for super funds to consider offering such products within retirement solutions.

Implications for super fund trustees

Age Pension eligibility is an important determinant of the retirement solution that may be suitable for a member, especially given that the Age Pension will be a significant component of retirement income for many fund members. Trustees thus should consider the Age Pension as an integral part of the fund's RIS. Indeed, the [RIC legislation](#) states that the Age Pension **must** be taken into account in determining retirement income²⁴ (with grey shading added):

¹⁷ Treasury floated the idea of such an account, which they named a 'capital reserve', in the [Superannuation in Retirement](#) consultation paper of December 2023.

¹⁸ For example, modelling by an [Actuaries Institute working group in 2019](#) found that increasing drawdowns within the taper zone to enhance expected utility of retirement income. Their proposed rule of thumb consequently suggested adding 2% to their baseline drawdown rate schedule when the balance between \$250,00 and \$500,000 (at least at that time).

¹⁹ For some retirees, personal financial advice might best assist them to get the most out of their retirement resources than trying to encode Age Pension optimisation into drawdowns.

²⁰ This would mainly apply under an income optimisation objective, noting that an income target objective implies drawing-to-target (See [Explainer #2](#)).

²¹ Refer to [Services Australia](#) for details.

²² The capital value is indexed at the deeming rate of 0.75% up to \$64,200 (\$53,100 each per couple) and then 2.75%, which is likely to be less than investment returns.

²³ The recently released [AMP Super Lifetime product is designed to further increase the Age Pension eligibility benefits](#) through entering the product during the accumulation stage, hence building deeming credits.

²⁴ The RIC also requires funds to understand their member cohorts and what retirement approaches are suitable for

“The trustee must determine the meaning of retirement income for the purposes of the strategy, which:

- (a) must include income, net of tax, received during the period of retirement of the following kinds:*
 - (i) income paid from, or supported by, a superannuation interest in the entity;*
 - (ii) income from an Age Pension under the Social Security Act 1991;*
- (b) may include income from any other source if the trustee determines that it is appropriate to include income from that source.”*

Superannuation Industry (Supervision) Act 1993, Section 52AA(5)

Trustees thus need to take into account expected Age Pension benefits in designing retirement solutions. Integrating the Age Pension also provides a more holistic view of retirement income when providing guidance and advice to members.

A key hurdle for trustees to overcome is that a member’s Age Pension eligibility is a function of personal circumstances that extend beyond their interest in the fund, including:

- Member assets outside of their interest in the fund
- Whether a partner exists, and their assets
- Homeownership status
- Whether any wage income is earned

The task facing trustees is to provide retirement solutions to members that deploy only their interest in the fund, i.e. their super balance at retirement. This challenge is discussed in [Explainer #7](#), where it is highlighted how trustees need to account for and collect certain personal formation to determine Age Pension eligibility of members in order to appropriately assist them. The first three items listed above are particularly important as these personal characteristics are pervasive across the member base (see [Explainer #4](#))²⁵ and hence highly relevant to the RIS. Many super funds are currently grappling with this challenge as they develop their RIS, although we understand some are already collecting this information through their advice and guidance processes. The [Advice through Superannuation](#) proposals under tranche 2 of the Delivering Better Financial Outcomes reforms appears to be paving the

different member groups. Age Pension eligibility is likely to be a significant consideration in formation of cohorts.

²⁵ Members of age 67 and older that are earning wage income are unlikely to constitute a large portion of the member base of most funds. In any case, those retirees with significant wage income may be best served through comprehensive financial advice.

way for trustees to collect this information under collectively-charged advice, i.e. advice provided free of any direct charge to the member.

Part D: Assisting retirees to access the Age Pension

Many members would appreciate assistance from their super fund with the Age Pension. Members find the Age Pension complex and challenging and the eligibility requirements and application process very confusing. (Refer to the Appendix for an account of the trials and tribulations of applying for the Age Pension.) People frequently do not know if they are eligible and how to apply, misunderstand how it all works, and can have little idea of how to maximise their entitlements. Many fail to apply on time and miss out on payments entirely – there is no backpay on the Age Pension.

There is a strong case for super funds helping members with the Age Pension, especially as it is likely that funds are the first port of call for retirement funding until the Age Pension becomes available. A [Link Advice²⁶ survey conducted by Retirement Essentials](#) in 2022 found that 79% of people wanted help with the Age Pension and 72% wanted that help from their super fund. The same survey found that only 44% apply on time, 24% applied within a year and 32% over a year late. Applying late may cost members tens of thousands of dollars. It is in both the member’s and the fund’s interest to help members to apply on time. Trustees can assist members with the Age Pension by:

- Offering educational content about the Age Pension on the website and through webinars
- Nudging members approaching age 67 (and beyond) to pay attention to and apply for the Age Pension
- Offering access to Age Pension calculators
- Incorporate the Age Pension into retirement income calculators and digital advice services
- Providing concierge services that help members to apply for the Age Pension
- Adding Age Pension advice to the financial advice offering, including guidance on how to optimise payments²⁷.

²⁶ Link Australia now operates as MUFU, and their advice offering is now called Retire360.

²⁷ Most financial decisions have implications for the Age Pension. Common considerations include: whether to pay off the mortgage (research from Retirement Essentials shows that 15% of people enter retirement with a home mortgage); whether to allocate super to a younger spouse;

PART E: Our take – Greater focus on the Age Pension is needed

The Age Pension and other support available to retirees is a central consideration for the type of retirement solution that is suitable for super fund members. It hence should be a point of focus for super fund trustees in developing their RIS and delivering it to members. We understand that a number of super funds offer assistance to members through education as well as referral to advice and other concierge services to help them apply for the Age Pension. Most are aware of the importance of the Age Pension, and some have informed the Conexus Institute that their cohorts are at least partly based around Age Pension eligibility.

While this is a good start, we feel that super funds could be doing much more. Age Pension payments available to individual members should ideally be estimated and then integrated into retirement solutions through how the assets are allocated and income is delivered. Currently this largely seems to occur only when the member seeks and pays for personal financial advice.

Super funds need to find a way to integrate the Age Pension into retirement solutions and guidance *at scale*, with a one-size-fits-all approach being inappropriate. This will require collecting and deploying the personal information that allows Age Pension eligibility to be estimated, i.e. partnered status, assets outside of super and homeownership. Perhaps the *Advice through Superannuation* reforms will pave the way for the industry at large to move in this direction (see [Explainer #6](#)). We also feel that the industry could do a better job of taking other support that is available to retirees into account in the retirement solutions and guidance that is offered. In short, there is much to do.

whether to allocate to a LIS; whether to gift money; and drawdown strategies.

APPENDIX

Trials and tribulations of applying for the Age Pension

Members find applying for the Age Pension challenging. For most, it is a first-time experience that is difficult to understand. The means test is very hard to grasp. The forms are complex and often very long. The government is very diligent about assuring the rules are followed and that people don't get entitlements they're not due. In the aforementioned Link Advice survey, 50% of respondents said they found the application process very difficult or difficult. Only 12% said they found Centrelink easy to deal with. One of the primary reasons given for the delay in applying for the Age Pension was hesitation in dealing with Centrelink (i.e. Services Australia).

Members can apply for the Age Pension up to 13 weeks before they turn 67. They can do it manually on the Age Pension Application Form and an Income and Assets Test Form. These forms respectively contain over 90 questions spanning 25 pages. The collection of the member and partner's information involves over 55 questions across 18 pages. Alternatively, they can go through the my.gov.au online process.

Applicants commonly visit a Centrelink office at least once to identify themselves and get a Customer Reference Number (CRN). The process requires them to complete all questions online, scan all supporting documentation and upload to their Centrelink account. If they need help such as questions answered they may call Centrelink (which can be a variable experience). There is no online assistance.

To further complicate matters, Age Pension recipients are then required to advise Centrelink of any change in their circumstance that may impact on their eligibility. They are thus expected to constantly report on personal circumstances that can constantly change as their assets fluctuate in value and life events occur such as death of a partner, sale of the primary residence and movement into aged care. Many may fail to keep their information up to date, which could lead to missing out on available benefits or exposure to demands to make good any over-payments²⁸.

In short, applying for the Age Pension is difficult. There is a good case for the Government to improve the process, and for trustees to assist members.

²⁸ We understand that Services Australia has been relatively forgiving so far, although this may not continue.