Deeming rates explained

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What is deeming?

Deeming is used in the income support system to assess income earned from financial investments, including bank accounts, term deposits, money invested in shares, and other cash assets.

Rather than assess actual income earned off these kinds of investments, Centrelink uses deeming rates to 'deem' how much is earned off the investment. In other words, Centrelink ignores what income support recipients are earning off their cash assets; instead, it deems them to earn a certain amount.

Deeming rates

There are two rates – one for smaller investments and one for larger investments.

For single people, any cash assets they have of up to $51,800 are assessed to earn 1.75%. Anything over this threshold is assumed to earn 3.25%. (For couples, the deeming rates are the same, but the asset threshold is $86,200 (combined assets)).

So even if you have money invested in shares and it is returning 7%, Centrelink would still only assess it to earn 1.75% or 3.25%, depending on how much you have invested. The converse is true, too.

How are deeming rates adjusted?

Deeming rates are set by the Minister for Families and Social Services. There is no structure around changing deeming rates in response to changes in the cash rate. It's a political decision.

The last time deeming rates were changed was in March 2015, in response to the RBA dropping the cash rate. The Turnbull Government dropped deeming rates by 0.25%, in response to the cash rate dropping by 0.25% to 2.25%.

This drop in the deeming rates cost $200m over the forwards, and provided around 770,000 part-pensioners an extra $80 a year.

Why has this become an issue now?

Deeming rates have become an issue now because the cash rate has dropped to 1% and the returns on interest-bearing accounts have fallen to below the higher deeming rate of 3.25%.

Many part-pensioners have their cash invested in a bank and are not getting interest returns at or above 3.25%. As a result, Centrelink is assessing them as earning more than they are earning via interest returns.

Some things to bear in mind

Deeming also applies to shares and other financial assets that may be delivering better returns than term deposits (however, many pensioners, particularly those with lower cash assets, have the money in the bank).

Up until the Global Financial Crisis, the highest deeming rate generally tracked under the cash rate. This means that many pensioners would have been earning more off their investments – even term deposits – than they were deemed to earn by Centrelink.

A better approach to setting deeming rates

Rather than leave decisions about deeming rates to the Minister of the day, a better approach would be to have an independent body advise on such settings in the income support system. A social security commission would be well placed to provide government with advice about how deeming rates should be set, as well as broader settings concerning means-testing and adequacy of allowances and pensions.