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A guide to the Commonwealth Seniors Health Card

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Eligible self-funded retirees may receive assistance with certain living costs via the Commonwealth Seniors Health Card (CSHC). CSHC holders have access to cheaper prescription medicines through the Pharmaceutical Benefits Scheme and various concessions from the Australian Government and state, territory and local Governments. The CSHC is subject to an income test but no assets test.

In this article, we describe the CSHC eligibility and Income Test requirements for self-funded retirees.

Eligibility

To qualify for the CSHC a person must:

- have reached pension age for Centrelink (currently 65.5 for men and women) or Department of Veterans' Affairs (DVA) Service Pension (currently 60 for veterans and 65.5 for non-veterans);
- be an Australian citizen, a holder of a permanent visa, or a Special Category Visa holder and meet other residence requirements where applicable;
- reside in Australia;
- not be receiving a Centrelink pension or benefit, a DVA Service Pension or Income Support Supplement;
- meet the requirements of an annual income test; and
- provide their tax file number.

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Applicants are required to be in Australia at the time of claim, however once received, cardholders can travel outside Australia temporarily without having their CSHC cancelled providing the period of absence is 19 weeks or less. This will be particularly important for those who wish to retain grandfathering on their account-based income streams (refer to grandfathering provisions below).

In addition to benefits described above, CSHC holders may also receive the Energy Supplement, as described in the table below. The Energy Supplement is currently $14.10 per fortnight for singles or $10.60 per fortnight for each member of a couple and is received quarterly in arrears.

Table 1: Energy Supplement eligibility for CSHC holders

If a person became eligible for CSHC	The Energy Supplement
from 20 March 2017	won't be paid
between 20 September 2016 and 19 March 2017	stopped on 20 March 2017
by 19 September 2016	will continue unless there's a break in a person's eligibility for CSHC

Income Test requirements

A person will satisfy the Income Test if their adjusted taxable income (ATI) plus deemed income from account-based income streams is below the relevant income threshold as described in the table below.

Table 2: CSHC annual income thresholds applying from 20 September 2018 to 19 September 2019[1]

Single	Couple (combined)	Couple separated by illness (combined)
$54,929	$87,884	$109,858

These income limits are increased by $639.60 for each dependent child in a person's care.

Note: Where a person lost their Age Pension because of the 1 January 2017 assets test changes, they were automatically issued a non-income-tested CSHC. These CSHC holders are still required to meet the residence requirements mentioned above.

Adjusted taxable income (ATI)

Adjusted taxable income for the applicable tax year is the sum of:

- taxable income;
- reportable superannuation contributions (including salary sacrifice, personal deductible and additional employer contributions);
- total net investment losses (including net rental property losses);
- target foreign income (tax-exempt foreign income and income from sources outside Australia which tax is not paid on), and;
- employer provided fringe benefits.

1 The income thresholds are indexed on 20 September each year.

To verify a person's ATI, Centrelink/DVA will generally require their tax notice of assessment (TNA) for the financial year prior to the year of claim. In situations where the person does not complete annual tax returns, Centrelink/DVA will request other documentation to verify the person's ATI.

For example, where a person only receives tax-free income from an account-based pension (ABP) and does not complete an annual tax return, Centrelink/DVA will request their latest superannuation statement to work out deemed income (see the following section on deemed income for further information).

In some instances, an estimate of their income as opposed to their TNA can be used. For example, where a person can demonstrate a change in their personal circumstances, such as retirement or ill-health, which would cause their income to be significantly different.

Further information on ATI can be found in the Guide to Social Security Law.

Deemed income

Deemed income on the account balance of an ABP is assessed unless grandfathering provisions apply (refer to grandfathering provisions below).

For those less than age 60, ABPs are not deemed. This is to eliminate the possibility of double counting as any taxable portion of ABPs paid to those less than age 60 is assessable and captured under the person's ATI.

Attention should be paid to spouses who turn 60 during the year as the addition of deemed income from any ABP may cause the couple's total assessable income to exceed the annual income threshold.

For example, if a spouse was aged 59, their ABP would not be deemed. However, depending on their ABPs taxable and tax-free components, there may be some assessable income that would be included in the couple's ATI calculation. Once the spouse turns age 60, income from their ABP becomes tax-free and excluded from the couple's ATI, however their ABP will be deemed.

Grandfathering provisions

Where a person purchased an ABP before 1 January 2015 and that person was a holder of a CSHC on 31 December 2014, deemed income from their ABP will be exempt from the income test as long as:

- they continue to hold a CSHC; and
- they retain the same ABP.

ABPs retain grandfathering status on automatic reversion where the reversionary beneficiary was a CSHC holder at the time of reversion.

If changing income stream providers after 1 January 2015 the new ABP will be deemed. People who have their CSHC cancelled after 1 January 2015, for example by travelling outside Australia for more than 19 consecutive weeks, will have their ABPs deemed if they wish to reapply for the CSHC. It is important to note that once an ABP loses its grandfathering status, it cannot be re-obtained.

The grandfathering rules for the CSHC income test operate independently to the grandfathering rules for the Centrelink/DVA Income Test. This means that while an income stream may be grandfathered for Centrelink/DVA, it may not be for the CSHC and vice versa.

> Account-based income streams that commenced before 1 January 2015 are excluded from deeming if the person was a holder of the CSHC card immediately before 1 January 2015 and they continue to be a holder of the card continuously thereafter.

Managing income

Where a person is expected to exceed the CSHC income threshold for a particular income year, a few options that may help bring them back below the threshold include:

- investing in an insurance/investment bond as earnings are internally taxed at a maximum rate of 30% and are not included in a person's assessable income for tax purposes[2];
- investing in a non-account-based non-superannuation term or lifetime annuity that has a deductible amount for tax purposes;
- setting up a family trust and distributing income to other beneficiaries;
- investing in assets that generate a lower rate of taxable income;
- deferring and/or spreading realised capital gains across multiple income years;
- rolling deemed ABPs back to the accumulation phase of superannuation;
- rolling deemed ABPs to superannuation non-account-based term or lifetime annuities.

Deemed income for the CSHC Income Test excludes non-account-based income streams.

For example, Michael is currently aged 67, single, owns his own home and is working part time earning $45,000 per annum. His other assets include an ABP with a balance of $500,000 (deemed), a holiday home worth $300,000 and $10,000 in an at-call bank account that pays no interest. He is not eligible for the Age Pension because of the Assets Test.

His total assessable income for the CSHC income test is $60,482 ($45,000 total ATI + $15,482 deemed income[3]) making him ineligible for the CSHC.

He could transfer his ABP back to accumulation, making him eligible for the CSHC however he should weigh the benefits of the CSHC against the 15% tax on earnings in accumulation phase and the loss of tax-free income.

Alternately, if he rolled over $200,000 from his ABP to a superannuation lifetime annuity, his total income for the CSHC income test would be $53,982 ($45,000 ATI + $8,982 deemed income[4]) making him eligible for the CSHC.

2 Assuming that no withdrawals are made within the first 10 years.

3 Based on Centrelink rates and thresholds as at 20 September 2018. $51,200 x 1.75% + ($500,000 – $51,200) x 3.25%

4 Based on Centrelink rates and thresholds as at 20 September 2018. $51,200 x 1.75% + ($300,000 – $51,200) x 3.25%

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