Challenger Tech

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How are annuities assessed under the CSHC income test?

Broadly, the Commonwealth Seniors Health Card (CSHC) income test assesses an individual's adjusted taxable income (ATI) and deemed income from non-grandfathered account-based pensions.

ATI for the purposes of the CSHC income test includes:

- taxable income, disregarding the individual's assessable First Home Super Savers (FHSS) scheme released amount,
- total net investment loss,
- target foreign income,
- employer provided fringe benefits, and
- reportable superannuation contributions, including income that is salary sacrificed to superannuation.

Income limits

To qualify for the CSHC, an individual's total assessable income needs to be below the relevant income limits. The following table shows the CSHC annual income limits applying from 20 September 2021. The income thresholds are indexed on 20 September each year.

Single	Couples (combined incomes)	Illness separated couples, including respite care and partnered (partner in gaol) couples (combined incomes)
$57,761	$92,416	$115,522

For each dependent child, add $639.60.

At the time of writing, legislation[1] has been introduced (but has not been legislated) into parliament to increase the above limits from 20 September 2022 to:

Single	Couples (combined incomes)	Illness separated couples, including respite care and partnered (partner in gaol) couples (combined incomes)
$90,000	$144,000	$180,000

1 Social Services and Other Legislation Amendment (Lifting the Income Limit for the Commonwealth Seniors Health Card) Bill 2022.

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Superannuation annuities

Regular payments from superannuation annuities (without an untaxed element) are generally tax-free for individuals aged 60 and over and are excluded from the individual's ATI. Annuities that are non-account-based, for example Challenger's annuities, are also not subject to deeming.

This means, an individual can reduce their assessable income for the purposes of the CSHC by investing in an annuity using funds from a non-grandfathered account-based pension, or contributing funds to super to commence a superannuation annuity.

Non-superannuation annuities

Regular payments from non-superannuation annuities can be assessable for tax purposes and as such can have an amount included in the ATI component of the CSHC's income test. However, non-superannuation annuities have a deductible amount (DA) that reduces the amount that is assessable.

Assessable income for the CSHC = Regular payments less DA

The deductible amount is calculated as follows:

- Lifetime annuities DA = Purchase price / relevant number
- Fixed term annuities DA = (Purchase price - any commutations - any residual capital value) / relevant number

The relevant number for fixed term annuities is the original term at commencement. For lifetime annuities it is the life expectancy of the individual at commencement (or the longer life expectancy for joint policies or policies with a reversionary beneficiary) based on the life tables from the Australian Government Actuary.

For example, a 5-year fixed term annuity commenced with $100,000 and has a residual capital value of $50,000, pays $13,180 p.a. (based on a Challenger quote as at 1/8/2022) and has a deductible amount of $10,000 p.a. [($100,000 - $50,000)/5].

Assessable income for the purposes of the CSHC = $13,180 - $10,000 = $3,180.

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