



Australian Government

THE DEPARTMENT OF SOCIAL SERVICES

# New Policy Proposal: Resetting the Social Security Deeming Rates

Impact Analysis (OIA25-09847)

Prepared by The Department of Social Services

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# 1. What is the policy problem you are trying to solve and what data is available?

With the end of a three-year freeze of the social security deeming rates on 30 June 2025, it is appropriate to begin returning the rates to their normal operation.

## The deeming rates

The social security deeming rates provide a fair and simple way to assess the income people can earn on their financial assets for social security purposes.

Australia's social security system is targeted to support those most in need. Means testing applies for most income support payments (and benefits) and is considered the fairest way to ensure support is targeted to those in the community with the greatest need.

The means test includes an income test and an assets test. A recipient's rate of payment is calculated under both tests, and the one that results in the lower rate of payment is the one that applies for an individual recipient. Free areas (for both income and assets) and taper rates result in a recipient's payment rate being reduced gradually as their capacity to provide for their own living costs increases. This ensures a recipient is always better off with additional income or assets than if they rely solely on income support.

A recipient whose payment rate is determined by the income test is said to be on an *income-tested rate* of payment. A recipient whose payment rate is determined by the assets test is on an *assets-tested rate* of payment.

The deeming rates are an important part of the income test. Deeming assumes people can earn the kinds of returns on their financial assets that are available from simple investments such as bank accounts, term deposits, shares and managed funds. A recipient is assumed (deemed) to earn the amount determined by the deeming rates, regardless of the return they actually earn on their investments. Anything a person earns above the deeming rates does not affect their income support payment rate.

Deeming was introduced in its current form in 1996 to simplify reporting and administrative requirements. It replaces the need for recipients to track and report their actual investment income from different types of financial assets, and encourages them to seek a reasonable rate of return across their financial investments as a whole.

There are two deeming rates, which apply to financial assets above and below certain thresholds. From 1 July 2025:

- The lower deeming rate, currently set at 0.25 per cent, applies to the first \$64,200 of a single recipient's total financial assets, and the first \$106,200 of a pensioner couple's total combined financial assets.
- The upper deeming rate, currently set at 2.25 per cent, applies to any financial investments above these thresholds.

The deeming rates are set via a Ministerial instrument under section 1082 of the *Social Security Act 1991* (the Act). The deeming thresholds are indexed by movements in the Consumer Price Index on 1 July each year under section 1081 of the Act.

### **Who is affected by the deeming rates?**

Deemed income is calculated for all income support recipients with financial assets and can affect the rate of all income support payment types. However, the income free areas and taper rates that apply to different payments mean deemed income will only reduce a recipient's payment rate if the following conditions are met:

- The recipient must be on an income-tested rate of payment, meaning the income test produces a lower payment rate for them than the assets test; and
- The recipient's total income – which includes their deemed income together with any other sources of income, such as employment, business, assessable superannuation or a foreign pension – exceeds the income free area for their payment. For example, from 1 July 2025:
  - For pensions, the income free area is \$218 a fortnight for singles and \$380 for couples combined.
  - For JobSeeker Payment, the income free area is \$150 a fortnight.

As at 27 June 2025, there were almost 5.4 million people receiving an income support payment. Around 771,000 of these recipients had their payment rate affected by deemed income. Table 1 below shows the number of recipients of each major income support payment type who are currently on a rate of payment being reduced by deemed income.

Age pensioners comprise around 60 per cent of the recipients affected by deeming and tend to experience the largest impact from deeming on their payment rates. This is because age pensioners tend to hold more financial assets than people receiving other income support payments. There are several reasons for this, including that people of Age Pension age have had longer to accumulate financial assets, and their superannuation balances are assessable.

**Table 1: Income support recipients currently on a rate of payment being reduced by deemed income**

Payment type	Total payment recipients	Number of recipients affected by deeming	% of payment recipients affected by deeming
Age Pension	2,667,400	457,300	59.3%
JobSeeker Payment	883,700	95,900	12.4%
Disability Support Pension	830,900	61,500	8.0%
Parenting Payment Single	331,800	57,300	7.4%
Carer Payment	325,800	40,800	5.3%
Youth Allowance (student and apprentice)	158,900	36,900	4.8%
Youth Allowance (other)	101,500	5,400	0.7%
Parenting Payment Partnered	59,100	7,400	1.0%
Austudy	25,000	4,000	0.5%
ABSTUDY (Living Allowance)	8,000	700	0.1%
Special Benefit	5,700	3,300	0.4%
<b>Total</b>	<b>5,397,800</b>	<b>770,700</b>	<b>100.0%</b>

*Services Australia administrative data as at 27 June 2025. Figures are rounded to the nearest 100.*

Table 2 shows the average and median amount of assessable financial assets held by recipients of each major income support payment type<sup>1</sup>. Age pensioners affected by deeming have an average of around \$126,600 in financial assets. However, the median is much lower, at around \$82,700 in financial assets. This pattern is repeated for the other major payment types, and indicates the averages are affected by a small number of people with relatively high financial assets in the cohort.

<sup>1</sup> For couples, the level of financial assets is the amount that is allocated to them under the means test of their payment. For example, for a couple where both members are receiving a pension, the value of their financial assets would be combined and half of that amount would be attributed to each individual.

**Table 2: Average and median financial assets for recipients currently on a rate of payment affected by deemed income**

Payment	Average assets held	Median assets held
Age Pension	\$126,600	\$82,700
JobSeeker Payment	\$28,100	\$2,300
Disability Support Pension	\$61,300	\$8,400
Parenting Payment Single	\$16,200	\$1,700
Carer Payment	\$38,100	\$4,100
Youth Allowance (student and apprentice)	\$7,900	\$2,500
Youth Allowance (other)	\$17,200	\$800
Parenting Payment Partnered	\$12,700	\$1,700
Austudy	\$3,500	\$3,200
ABSTUDY (Living Allowance)	\$6,400	\$1,600
Special Benefit	\$1,600	\$700

*Services Australia administrative data as at 27 June 2025. Figures have been rounded.*

*For couples where neither member is a pension recipient, only the payment recipient's financial assets are reported.*

## The deeming rate freeze

The Government froze the deeming rates for two years, from 1 July 2022 to 30 June 2024, to provide cost of living support to pensioners and other income support recipients who rely on investment income in addition to their income support payment.<sup>2</sup> The freeze was extended for a further 12 months to 30 June 2025 as part of the 2024-25 Federal Budget.

The end of the freeze does not mean the deeming rates change automatically. The deeming rates can only be changed by an explicit decision of the Minister for Social Services under the Act. If no decision is made, the rates will stay at 0.25 per cent and 2.25 per cent indefinitely.

During the freeze, the deeming rates have remained at the levels set on 1 May 2020 during the emergency conditions of the early COVID-19 pandemic. At that time, both deeming rates were reduced by 75 basis points. This reduced the lower deeming rate from 1 per cent to 0.25 per cent and the upper deeming rate from 3 per cent to 2.25 per cent.

<sup>2</sup> [Deeming freeze to help keep pensioners keep more in their pockets](#), The Hon Amanada Rishworth MP, 1 July 2022

## Resetting the deeming rates

The intent of the deeming provisions is that the deeming rates should be adjusted periodically to reflect the investment returns reasonably available to pensioners and other income support recipients. The Explanatory Memorandum to the *Social Security and Veterans' Affairs Legislation Amendment Act 1995*, which introduced the current deeming framework, stated:

These rates will be reviewed periodically to take into account movements in the financial markets.

The practice of successive governments is that:

- The lower deeming rate should reflect the returns available from safe and accessible investments, such as bank accounts.
- The upper deeming rate should recognise recipients with more financial assets can seek increased returns on that portion of their assets by accepting some reduced accessibility and/or additional risk, for example through longer term deposits, share dividends, and/or managed funds.

With the ending of the freeze, there are strong policy reasons to return the deeming rates to their normal operation.

Disproportionately low deeming rates treat recipients with investment income concessionally compared to those with other sources of income (such as a foreign pension, or employment income for working age recipients). This is inconsistent with the basic horizontal equity principle that underpins the social security system, according to which people with similar means should get similar income support outcomes.

For example, a single age pensioner with \$200,000 in financial assets is deemed to earn investment income of around \$124 per fortnight under the current deeming rates, or around \$3,216 per year. This is the amount that would be assessed in the income test. As this amount of income is lower than the income free area, they would receive the maximum rate of Age Pension (\$1,149 per fortnight using 1 July 2025 rates and thresholds).

However, if this person has their \$200,000 invested in a 12-month term deposit at an interest rate of 3.5 per cent per annum, they would earn an actual return of \$7,000 after one year – equivalent to around \$269 per fortnight. Under the current deeming rates, their deemed income is \$145 per fortnight less than their actual investment income.

In contrast, a single age pensioner who has \$269 per fortnight in income from another source, for example a small foreign pension, would have the full amount assessed in the income test. They would receive an income-tested part rate of Age Pension of \$1,123.50 per fortnight (using 1 July 2025 rates and thresholds) because their income is over the income free area.

The economic environment has changed considerably since the deeming rates were set to their current levels on 1 May 2020 during the early stages of the pandemic. The interest rates currently available on bank accounts and other interest-bearing investment products are significantly higher today than when the deeming rates were set to their current levels in 2020.

Most of the recipients who benefited from the deeming freeze are on a part-rate of payment because they have financial assets and investment income to assist with their living costs. The high inflation of recent years resulted in higher indexation of income support payment rates and thresholds to reflect the growth in living costs. Indexation benefits all payment recipients equally, including those who also gained additional benefits from the deeming freeze.



## 2. What are the objectives, why is government intervention needed to achieve them, and how will success be measured?

The objective is to restore the deeming rates to their normal operation by adjusting them to reflect reasonably available investment returns, consistent with the practice of successive governments.

The average return currently offered on savings accounts targeted at older Australians by the Big Four banks – a key indicator for the lower deeming rate – is 1.23 per cent per annum for someone with an account balance of around \$64,200 (the deeming threshold for a single person)<sup>3</sup>.

For the upper deeming rate, key indicators include 12-month term deposits from the Big Four Banks, which are currently offering an average return of 3.60 per cent per annum<sup>4</sup>, and the ASX All Ordinaries dividend yield, which is 3.29 per cent as at June 2025<sup>5</sup>.

### **There is no viable alternative to government action**

The deeming rates are intended to be adjusted from time to time to reflect changing investment returns. This has been the practice of governments since the current deeming framework was introduced into legislation in 1996. Under law, the rates can only be adjusted by the Minister for Social Services. There is therefore no alternative to Government action.

### **Fairness and equity**

Fairness and equity are basic principles of the social security system. In relation to the deeming rates, there are two aspects to consider.

First, the deeming rates should reflect rates of return that pensioners and other income support recipients can reasonably achieve from their investments. This means the deeming rates should be set based on evidence about the rates of return available in the market for readily accessible investments such as bank accounts, term deposits, shares, managed funds, and superannuation. Recipients should not be expected to achieve rates of return that beat the market or require specialised financial knowledge or services.

Second, investment income should be treated similarly to other forms of income. An indefinite concession on investment income is not fair or equitable for recipients who have no additional income besides their payment, or who have income from other sources.

Success in this aspect would be measured by how well the deeming rates are aligned with the rates of return intended to be reflected in the upper and lower rates. The deeming rates would be set at levels comparable to current returns on investments that are reasonably accessible to age pensioners.

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<sup>3</sup> Based on the following products accessed in July 2025: Commonwealth Bank Pensioner Security Account; NAB Retirement Account; Westpac 55+ and Retired; ANZ Pensioner Bank Account.

<sup>4</sup> Rates accessed in July 2025.

<sup>5</sup> Market-cap weighted Dividend Yield for the Australian stock market, available from: <https://www.marketindex.com.au/statistics>.

## **Community confidence in the social security system**

Deeming rates need to reflect community expectations about the targeted nature of Australia's social security safety net. An ongoing, disproportionate concession on investment income risks reducing community confidence, particularly if it is perceived individuals with similar means are being treated differently in the system.

Success in this aspect will be measured by stakeholder opinion. While difficult to quantify, this would include feedback from social security recipients, peak bodies and the broader public, including those participating in discussions around the sustainability of government services. Success would also be measured by how well the public understands the intent of the deeming rates and how they are adjusted according to market conditions.

### **Predictability**

Social security recipients should have the information they need to form reasonable expectations about the factors that will determine their future entitlement to income support.

Any decision on the deeming rates should be based on the principles for setting the rates that have been followed by successive governments. While market movements themselves cannot be predicted, recipients should be confident that the deeming rates will be adjusted periodically to broadly reflect those movements.

Recipients should also be able to predict when adjustments to the deeming rates will occur. In normal circumstances, any adjustment to the rates should occur at the same time as indexation is applied to pensions and allowances. This happens twice a year, on 20 March and 20 September. Changes outside of this cycle would ideally be made only in exceptional circumstances.

A regular schedule of review in the lead up to each indexation day would ensure recipients know when to expect a potential adjustment to the deeming rates and prevent them experiencing an excessive number of changes to payment rate throughout the year. It also has the benefit of allowing payment indexation to offset some of the impact of an increase to the deeming rates.

Success in this aspect would require a regular process for reviewing and adjusting the deeming rates that is well understood by the public. While public understanding is difficult to quantify, this would include feedback from people affected by the deeming rates, and from peak bodies in the social services space.

### **Reasonable Transition**

While the current deeming rates are well below the levels suggested by longstanding policy and should be restored to their normal operation, an immediate resetting of the rates would have a significant impact on affected recipients. The unprecedented circumstances of the COVID-19 pandemic and the deeming rate freeze have led to a situation where the deeming rates have remained constant for more than 5 years while there have been significant changes in the rates of return they are intended to reflect.

Without this combination of events, a gap between the deeming rates and the relevant rates of return would not have remained in place for such a long period of time. As it is, recipients have not needed to take potential changes to the deeming rates into account in planning their finances for many years. A sudden, full reset of the deeming rates would not be reasonable in these circumstances.

The transition back to normal operation of the deeming rates should therefore occur in a staged manner that allows recipients time to adjust. Changes to the rates should also take effect at the same time as payment indexation to allow indexation increases to partially or fully offset the impact on recipients.

### 3. What policy options are you considering?

Two options were considered. The first option would leave the rates unchanged. The second would incrementally increase the deeming rates until they reach the appropriate levels, with the first increase being implemented on the next indexation day for pensions and allowances, 20 September 2025.

An immediate transition of the deeming rates to reflect available investment returns would be inconsistent with the Reasonable Transition criterion articulated in the previous section. The need for a significant transition is a one-off situation caused by the confluence of the COVID-19 pandemic, the deeming rate freeze, and subsequent changes in the overall economic environment, and is unlikely to be repeated in the foreseeable future.

#### 3.1 Option 1: No Government action (Status quo)

This option would leave the deeming rates at their current levels of 0.25 per cent for the lower rate and 2.25 per cent for the upper rate, originally set during the emergency conditions of the early COVID-19 pandemic.

As the deeming rates can only be changed by Ministerial determination, without government action they will remain at these levels indefinitely.

#### 3.2 Option 2: Reset the rates in increments

This option would reset the deeming rates incrementally, with stepped increases on 20 September and 20 March (the indexation points for most pensions and allowances), starting on 20 September 2025, until the rates appropriately reflect the investment returns available at the time. From that point forward, the deeming rates would be reviewed in the lead up to each March and September indexation day and adjusted if necessary to ensure they continue to operate as intended.

The most reasonable approach is to increase the rates in 50 basis points increments. The first increase in September 2025 would increase the lower deeming rate to 0.75 per cent and the upper deeming rate to 2.75 per cent.

These would still be transitional deeming rates that remain below the level of investment return reasonably available in the current economic environment. The rates would be reviewed again in the lead up to payment indexation on 20 March 2026. Depending on the investment returns available at the time, an additional increase of no more than 50 basis points would be considered at that time.

## 4. What is the likely net benefit of each option?

Both options affect individuals only, by impacting their income support payment rates if they have sufficient financial assets. There are no impacts on businesses or community organisations, and no regulatory burden or compliance expectations associated with either option.

The options were assessed on the criteria of fairness, community expectations, predictability and reasonable transition.

### 4.1 Option 1: No Government action (Status quo)

#### **Fairness**

Under this option, the deeming rates would continue to be disproportionately low. Contrary to the principle of horizontal equity, income from investments would continue to be treated concessionally compared to other forms of income, including employment income for working age people.

#### **Community confidence and expectations**

The deeming rates would continue to not meet community expectations that the social security system is appropriately fair and targeted to need.

#### **Predictability**

This approach does not improve predictability for recipients affected by the deeming rates. It does not give them a clear indication of when the deeming rates may change in future, or by how much. While the deeming rates would remain low for the time being, recipients would be aware this situation would be unlikely to remain in place indefinitely.

#### **Reasonable transition**

Under this option, there would be no transition.

#### **Impact**

Under this option, the net financial impact on individuals would be nil and there would be no regulatory cost, as there would be no changes to the deeming rates.

#### **Regulatory impacts**

This option would have no regulatory impacts on people, communities or businesses.

*Regulatory costs table 1*

Average annual regulatory costs of no government action (status quo)				
Change in costs (\$ million)	Individuals	Business	Community organisations	Total change in cost
Total, by sector	\$0	\$0	\$0	\$0

## 4.2 Option 2: Reset the rates in increments

### Fairness

Deeming rates would gradually return to levels where outcomes are comparable between those with income from financial investments and those with income from other sources.

This option would improve horizontal equity within the social security system and ensure investment income is assessed in a fair way based on the intended operation of each deeming rates and the levels of return reasonably available to pensioners and other income support recipients.

### Community confidence and expectations

The deeming rates would gradually be increased to a level that would be expected to meet community expectations. The speed at which this would occur may or may not be considered reasonable by some stakeholders.

### Predictability

This approach provides certainty to those affected by the deeming rates, by giving them a clear indication deeming rates will increase until they meet target levels and will be adjusted each 20 March and 20 September depending on the economic conditions at the time.

### Reasonable transition

Incrementally resetting the deeming rates would allow affected individuals time to adjust before the rates are fully reset to reflect available investment returns. Applying the changes to the deeming rates on 20 September 2025 would allow payment indexation to partially or fully offset the impact on affected recipients' payment rates.

### Impact

This option would impact all recipients whose payment rate is affected by deemed income, as well as a small number of recipients who would start receiving an income-tested part rate of payment as a result of the deeming rate increase.

Table 3 shows the increase in deemed income assessed per fortnight for recipients with different levels of financial assets when the deeming rates are increased under this option. Under the income test, every dollar of income (including deemed) over the income free area for the payment would decrease a recipient's payment rate by the relevant income test taper amount each fortnight.

**Table 3: Increase in deemed income for single income support recipients with different assets levels**

Financial assets amount	Current deemed income (deeming rates at 0.25% and 2.25%) (per fortnight)	Deemed income if deeming rates were 0.75% and 2.75% (per fortnight)	Change in deemed income to be assessed under the income test (per fortnight)
\$20,000	\$1.92	\$5.77	+\$3.85
\$64,200	\$6.17	\$18.52	+\$12.35
\$85,000	\$24.17	\$40.52	+\$16.35
\$120,000	\$54.46	\$77.54	+\$23.08

The two-rate structure of the deeming rates means the upper deeming rate only applies to a portion of an income support recipient's financial investments, rather than the total. Table 4 shows the effective rate of return a recipient would need to achieve across their investment portfolio to match their deemed returns under this option, depending on the total amount of their financial assets.

For example, with the lower deeming rate set at 0.75 per cent and the upper deeming rate set at 2.75 per cent, a single pensioner with \$100,000 in financial assets would need to achieve an effective rate of return of 1.24 per cent to match their deemed returns. With \$150,000 in financial assets, they would need to achieve an effective rate of return of 1.89 per cent.

**Table 4: Rates of return on investment to match the deeming rates of 0.75 per cent and 2.75 per cent**

Financial assets amount	Effective rate of return
\$64,200	0.75%
\$85,000	1.24%
\$100,000	1.47%
\$120,000	1.68%
\$150,000	1.89%

### Net effect on recipients after indexation

Any increase in deeming rates would impact payment rates for recipients with sufficient financial assets. However, aligning the commencement of this option with the indexation of pension and allowance payment rates, would ensure recipients experience the least possible reduction in their actual fortnightly payment rate.

Under this option, Department of Social Services modelling indicates most recipients whose payment rate is affected by deemed income would not experience an actual reduction in their payment rate on 20 September 2025.

As shown in Table 5a, when factoring in the increases from indexation on 20 September 2025, Department of Social Services modelling estimates that this option would be expected to reduce payment rates for around 98,800 income support recipients, including around 69,500 age pensioners. The median reduction in payment on commencement is estimated to be around \$5.90 per fortnight, with over 94,000 recipients (around 96 per cent) estimated to experience a reduction of less than \$30 per fortnight.

**Table 5a: Estimated number of recipients who would experience a reduction in payment rate (per fortnight) as a result of deeming and indexation on 20 September 2025 under Option 2**

Payment Type	Recipients	Median change
Age Pension	69,500	-\$6.70
Austudy	2,800	-\$0.50
Carer Payment	1,800	-\$7.40
Disability Support Pension	5,600	-\$6.50
JobSeeker Payment	9,600	-\$9.30
Parenting Payment Partnered	200	-\$11.20
Parenting Payment Single	800	-\$7.80
Special Benefit	300	-\$0.10
Youth Allowance (student and apprentice)	7,200	-\$0.60
Youth Allowance (other)	1,000	-\$0.10
<b>Total</b>	<b>98,800</b>	<b>-\$5.90</b>

*Department of Social Services modelling. Estimates take into account the indicative impact of indexation (based on June 2025 CPI and PBLCI) in the fortnight following 20 September 2025.*

Table 5b shows how many recipients are estimated to receive a net increase or net decrease to their payment rate on 20 September 2025.



**Table 5b: Estimated net effect of deeming and indexation on all recipients affected by Option 2 on 20 September 2025**

	Amount (per fortnight)	Number of recipients
Decrease in payment	\$30+	4,200
	\$20 – \$29	7,300
	\$10 – \$19	21,100
	\$0 – \$9	66,200
	<b>Total</b>	<b>98,800</b>
Increase in payment	\$0 – \$9	146,300
	\$10 – \$19	364,400
	\$20 – \$29	280,500
	\$30+	17,000
	<b>Total</b>	<b>808,200</b>

*Department of Social Services modelling. Estimates take into account the impact of indexation in the fortnight following 20 September 2025. Impacts rounded to the nearest dollar.*

To illustrate how this option would impact recipients with different levels of financial assets, Tables 6a and 6b show the modelled net impact as at 20 September 2025 on:

- a) A single age pensioner who owns their home and has no other income or assets.
- b) A Jobseeker Payment recipient with no children who is renting, is receiving a maximum rate of Commonwealth Rent Assistance (CRA) and has no other income or assets.

**Table 6a: Modelled net impact for a single age pensioner with no other income or assets, 20 September 2025.**

Financial assets amount (and no other income or assets)	Change in payment from deeming change only (rates of 0.75% and 2.75%) (per fortnight)	Net impact on pension rate after indexation and deeming rates change (per fortnight)
\$200,000 or less	\$0 (no change in payment rate)	Increase of \$29.70
\$300,000	Decrease of \$25 per fortnight	Increase of \$4.70
\$400,000 and above	Not impacted by the proposal as the pensioner would be on an assets-tested rate of payment.	

*Department of Social Services modelling. Estimates take into account the indicative impact of indexation (based on June 2025 CPI and Pensioner and Beneficiary Living Cost Index (PBLCI)) in the fortnight following 20 September 2025.*

**Table 6b: Modelled net impact for a single Jobseeker Payment recipient who is renting and receiving maximum rate of CRA, 20 September 2025**

Financial assets amount (and no other income or assets)	Change in payment from deeming change only (rates of 0.75% and 2.75%) (per fortnight)	Net impact on Jobseeker Payment after indexation and deeming rates change (per fortnight)
\$100,000 or less	\$0 (no change in payment rate)	Increase of \$15.90
\$200,000	Decrease of \$6.10	Increase of \$9.80
\$300,000	Decrease of \$30	Decrease of \$14.10
\$400,000	Decrease of \$46.20	Decrease of \$30.30

*Department of Social Services modelling. Estimates take into account the indicative impact of indexation (based on June 2025 CPI and PBLCI) in the fortnight following 20 September 2025.*

## Regulatory impacts

This option would have no regulatory impacts on people, community organisations or businesses. There would be no changes to reporting or compliance requirements for income support recipients, and any changes to payment rates would be applied automatically.

Many affected recipients would already be achieving rates of return in excess of the level of the deeming rates under this option.

The lower deeming rate would be set 0.75 per cent. Higher returns are readily achievable in standard bank account products provided by the Big Four banks. These products align with the intended operation of the lower deeming rate by high levels of accessibility and security:

- The average return currently offered on savings accounts targeted at older Australians by the Big Four banks is 1.23 per cent per annum (% p.a.) for someone with an account balance of around \$64,200 (the deeming threshold for a single person)<sup>6</sup>.
- The average return currently offered on online savings accounts by the Big Four Banks is 1.33%p.a.<sup>7</sup>.
  - According to the RBA, the average interest rate paid to all households on deposits across all Authorised Deposit-Taking Institutions (ADIs) was 2.5% p.a. in June 2025<sup>8</sup>.

The upper deeming rate would be set at 2.75 per cent. The upper rate is intended to reflect the higher returns generally available on products that involve some reduced accessibility and/or increased risk. These include longer-date term deposits, shares, managed investments, and superannuation.

- The average return currently offered on twelve-month term deposits from the Big Four Banks is 3.60% p.a.<sup>7</sup>.
- According to the RBA, the average interest rate paid to all households on all new term deposits across all ADIs in June 2025 was 3.7% p.a.<sup>8</sup>.
- The ASX All Ordinaries dividend yield was at 3.29 per cent as at June 2025<sup>9</sup>.

### *Regulatory costs table 2*

Average annual regulatory costs of Government action				
Change in costs (\$ million)	Individuals	Business	Community organisations	Total change in cost
Total, by sector	\$0	\$0	\$0	\$0

<sup>6</sup> Based on the following products accessed in July 2025: Commonwealth Bank Pensioner Security Account; NAB Retirement Account; Westpac 55+ and Retired; ANZ Pensioner Bank Account.

<sup>7</sup> Rates accessed in July 2025.

<sup>8</sup> RBA, Paid Deposit Rates – F4.1, 'Deposit rates; Outstanding; At-call; Households' statistics available from: <https://www.rba.gov.au/statistics/tables/>

<sup>9</sup> Market-cap weighted Dividend Yield for the Australian stock market, available from: <https://www.marketindex.com.au/statistics>.

## 5. Who did you consult and how did you incorporate their feedback?

The deeming rates and end of the freeze on 30 June 2025 have been the subject of significant public discussion.

The views of stakeholders, including National Seniors Australia, Council On The Ageing, and the Combined Pensioners and Superannuants Association, were taken into account in the development of these options. In addition, the Department of Social Services continues to monitor and analyse content published by the media and stakeholders on these issues.

In broad terms, stakeholders have called for the deeming rate freeze to be extended further, for the methodology for setting the rates to be clarified, and for a transition out of the freeze to occur in a gradual way that gives affected recipients time to adjust.

Recent examples of media on deeming include (non-exhaustive):

- Australian Financial Review, 19 March 2025: *Deeming rates on hold in budget to woo pensioners ahead of poll*
- Stockhead, 24 March 2025: *Deeming rate joins negative gearing on the list of political untouchables*
- Sydney Morning Herald, 29 March 2025: *As we head to an election, does either party care about retirees?*
- The Guardian, 20 April 2025: *Norma isn't sure if she can afford to retire as market turmoil hits Australians' super savings*
- Australian Financial Review, 26 April 2025: *Labor and Coalition urged to fess up on deeming rate plans*
- The Senior, 28 May 2025: *Pensioners left hanging as government signals deeming freeze to end*
- The Nightly, 17 June 2025: *No news on Centrelink's deeming rates freeze is good news for part-pensioners ... for now*

### Summary of stakeholder views

#### Council on the Ageing (COTA)

COTA Australia is a peak body representing, and advocating for, older people to government, the general community and media. After the announcement of the 2025-26 Budget, the organisation said the government needed to “publicly confirm its intentions on freezing pensioner deeming at 0.25% and 2.25% beyond 30 June 2025.”

- COTA Australia Chief Executive, Patricia Sparrow said: “Deeming rates are used by government to estimate the amount of income pensioners earn from financial assets and can reduce the pension amount someone receives. Continuing to freeze deeming rates at current levels would go some way

to meeting the increased cost of living pressures faced by people on lower and fixed incomes like those on the age pension.”

Together with National Seniors Australia, in April 2025 COTA urged the Government to “come clean on their plans for deeming rates”.

- COTA Australia Chief Executive, Patricia Sparrow and National Seniors Australia Chief Executive Officer Chris Grice said deeming rates should continue to be frozen while pensioners and other Australians are battling with the current cost of living crisis
- “This would have a huge impact on older Australians ability to make ends meet,” Patricia Sparrow said.
- “Older Australians, and others whose crucial payments are determined by deeming rates, deserve to know what our political parties have in store for them.”
- “The current cost of living pressures are already hitting many Australians, particularly those on fixed incomes, hard. To expect people to deal with a drop of more than \$3000 on top of what they’re currently trying to cope with is unreasonable at best.”
- “Any changes need to be measured, incremental, and transparent in its calculation, so we don’t end up in a situation where older Australians who are already struggling under cost-of-living pressures are hit even harder.”

### **National Seniors Australia (NSA)**

NSA is an advocacy group that works to achieve better outcomes for all older Australians. The organisation has stated, “given how integral the deeming rates are to the social security system, NSA is calling for a fair and transparent approach to how they are set. A consistent and transparent method for determining deeming rates will ensure Australians know the pension is fair and adequate and that arbitrary changes are not being made at the expense of pensioners’ living standards.”

The NSA has called for:

- An independent approach to setting the deeming rates.
- Deeming rates being linked to changes in the RBA cash rate to reflect the returns available.

In its 2025-26 pre-Budget submission, the NSA recommended the government “continue to freeze deeming rates while interest rates remain high and use this time to create a fair and transparent method for calculating deeming rates in the future.”

NSA also called for a return to “the previous method (pre-2012), where the upper rate mirrored the RBA cash rate and the lower rate was a proportion of this, would be a fair approach. With the RBA cash rate high, any change to the deeming rate should be phased in incrementally when indexation of the Age Pension occurs in March and September.”

The organisation said that “older people welcomed the commitment to freeze deeming rates until July 2025, but with the cash rate higher than the upper deeming rate, there is a risk that when the freeze ends, a return to the post-2012 methodology will mean:

- Hundreds of thousands of pensioners will have their pensions cut
- Some Commonwealth Seniors Health Card holders will lose this benefit
- Aged care costs will increase for seniors subject to means testing.”

In June 2025, NSA wrote to the Minister for Social Services with its preferred option for setting the deeming rates after the end of the freeze. The organisation said, “our analysis supports delaying any change to deeming rates until interest rates moderate to a level that minimises the impact on Age Pensioners (and other payment recipients), after which a simpler and transparent method for setting deeming rates should be set out in regulations.”

### **Combined Pensioners & Superannuants Association (CPSA)**

CPSA is an advocacy group which promotes the rights of pensioners, superannuants and low-income retirees and seeks to improve their quality of life. CPSA has long held the view that there is a lack of transparency in how and why the deeming rates are set.

In an article published in 2019, CPSA stated, “The secrecy with which the Minister operates with regard to the deeming rates is inappropriate. There needs to be transparency about what triggers a review of the deeming rates and what factors other than term deposit rates are taken into account. Of Australia’s more than 3.5 million pensioners, some 785,000 (more than a quarter) are being paid under the income test and most, if not all of those pensioners, are affected by the deeming rates. They have a right to know exactly how their social security payment is calculated, and CPSA is using Freedom of Information to find out. THE VOICE will keep readers posted.”

This Freedom of Information request was finalised in January 2024.

In June 2025, the organisation said, “while extending the freeze would continue to help the approximately 900,000 Australians who benefit from the system, a better option might be to raise the base rate of all income support payments to ensure that everyone, not just those people with financial assets, are given some relief.”

## Response to stakeholders and proposal development

Position	Response
<b>Cost of living pressures necessitate a continued freeze of the deeming rates</b>	<p>Discussed in Question 2 of this impact analysis.</p> <p>While cost of living pressures remain a public concern, annual inflation is now back within the Reserve Bank of Australia target range of between 2 and 3 per cent, at 2.1 per cent as at the June 2025 quarter.</p> <p>Most of the recipients who benefited from the deeming freeze are on a part-rate of payment because they have financial assets and investment income to assist with their living costs.</p> <p>The high inflation of recent years resulted in higher indexation of income support payment rates and thresholds to reflect the growth in living costs. Indexation benefits all payment recipients, including those who have also benefited from the deeming freeze.</p>
<b>Any changes to the deeming rates should be fair, transparent, incremental and measured</b>	<p>Discussed in Question 2, 3 and 4 of this impact analysis.</p> <p>Deeming has always been intended to provide a fair and simple way to assess the income social security recipients can reasonably be expected to earn from their financial assets. This proposal is consistent with that intent.</p> <p>Option 2 proposes an incremental change and provides recipients with some time to adjust to reductions in their income support payment rates. Deeming rates would gradually return to levels where outcomes are fair across those with income from investments and those with income from other sources.</p> <p>As discussed in Question 1, the average return currently offered on relevant assets classes exceed the proposed deeming rates under Option 2.</p>
<b>Set one of the deeming rates to the cash rate (and/or the methodology should return to pre-2012)</b>	<p>The deeming rates have never been formally linked to the RBA cash rate.</p> <p>One explanation for the widespread perception of a direct link between the cash rate and the deeming rates is that, for at least 20 years up until 2022, the cash rate was closely matched by the returns offered by major banks on general</p>

Position	Response
	<p>savings accounts<sup>10</sup>. From 2013 to the start of the pandemic in 2020, the cash rate, the rate of return from online accounts, and the lower deeming rate fell in close association to near zero levels.</p> <p>This may have created an impression that the cash rate was directly determining the lower deeming rate. However, what directly influenced the lower deeming rate was the return from savings accounts. Between 2018 and early 2020, while the cash rate continued to fall, the lower deeming rate was not reduced until returns on savings accounts also fell, at some delay.</p> <p>This pattern of close association no longer applies. At the end of July 2025, online savings accounts were offering an interest rate of 1.40 per cent per annum<sup>11</sup> while the cash rate was set at 3.85 per cent.</p> <p>The current cash rate of 3.60 per cent is not generally achievable in standard savings accounts (i.e. those that do not have special conditions).</p>
<b>Deeming rates should be revised every March and September</b>	<p>Discussed in Question 3 of this impact analysis.</p> <p>Under Option 2, adjustments to the rates to ensure they continue to match reasonably available investment returns would be considered in the lead up to each 20 September and 20 March indexation day for pensions and allowances.</p>
<b>Changes should include a trigger to allow adjustment out of cycle</b>	<p>Under Option 2, there would be no change to legislative settings. The Minister for Social Services would retain full discretion to adjust the deeming rates at any point in time. Generally, adjustments would occur on 20 March or 20 September to coincide with indexation.</p>

<sup>10</sup> RBA, Advertised Deposit Rates – F4, 'Retail deposit and investment rates; Savings accounts; Online savings accounts' statistics available from: <https://www.rba.gov.au/statistics/tables/>



## 6. What is the best option from those you have considered and how will it be implemented?

As discussed in this report, the deeming rates are disproportionately low compared to returns achievable by age pensioners and other income support recipients in the market.

Option 1 would continue the concessional treatment of investment income compared to income from other sources. This would be inconsistent with the principles of fairness and equity, and weaken the targeted nature of the income support system. With the end of the deeming rate freeze and inflation back within the RBA target range, there is no policy justification for this approach.

The preferred option is the incremental approach of Option 2. The deeming rates would be returned to their intended operation in increments of 50 basis points, starting on 20 September 2025. The resulting levels of 0.75 per cent for the lower deeming rate and 2.75 per cent for the upper deeming rate would remain below reasonably available investment returns currently available, but this would be temporary.

This option balances the need to address the inequity of disproportionately low deeming rates with the need to allow affected recipients some time to adjust before the deeming rates are fully restored to their normal operation. It would also restore predictability to the management of the rates by ensuring they are reviewed twice a year, and ensure adjustments coincide with payment indexation to reduce the number of changes recipients experience to their payment rate during the year.

As required by law, changes to the deeming rates would be enacted by ministerial determination under section 1082 of the Act.

As the agency responsible for administering income support payments, Services Australia would apply the increases to the deeming rates alongside changes to indexation on 20 September 2025. Payment rates will be adjusted automatically and require no action by affected recipients.

The structured analysis on the following pages evaluates the alternative options for deeming. The evaluation is based upon the criteria outlined in Section 2 to measure success.

Those criteria are:

- Fairness and equity
- Community confidence in the social security system
- Predictability
- Reasonable transition

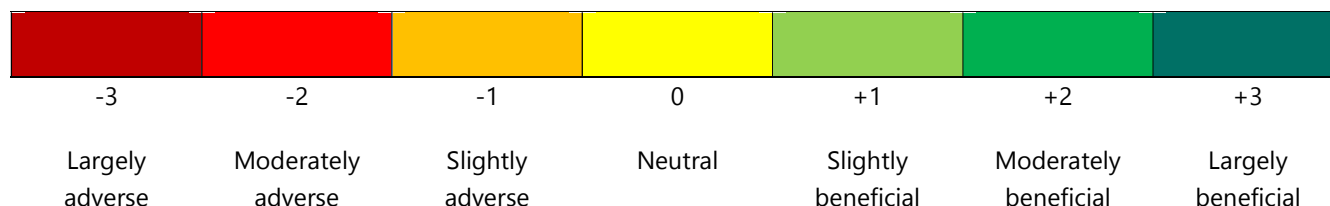
The overall score for each stakeholder for each option reflects an average.

The following stakeholder groups were identified:

- 1) People affected by deeming rates changes.
- 2) Social security recipients not impacted by deeming rates changes
- 3) The broader public.

There are no impacts on community organisations or employers.

## Summary of deeming rates options



Stakeholder	Option no.		Explanation	
	1	2	Option 1: Maintain the status quo	Option 2: Incrementally increase deeming rates
People affected by deeming rates changes	0	1	<p><b>Fairness and equity (0)</b></p> <p>This option maintains the current deeming rates and individuals will see no impact on their payment rates.</p> <p><b>Community confidence in the social security system (1)</b></p> <p>The concessional treatment of deemed income from keeping the deeming rates at their disproportionately low levels would benefit those who have deemed income. They may argue cost of living pressures justify a continued concession on investment income.</p> <p><b>Predictability (-1)</b></p> <p>This option does not provide any certainty to individuals about when adjustments would be made to the deeming rates, or provide a framework that can give individuals confidence in the system.</p> <p><b>Reasonable transition (0)</b></p> <p>There is no transition for this option.</p> <p><b>Overall (0)</b></p>	<p><b>Fairness and equity (-1)</b></p> <p>Increasing the deeming rates means this cohort would have a decrease in their payment rates. However, of the cohort of around 771,000 individuals currently receiving a rate of payment being reduced by deemed income, only 98,800 will experience a reduction in their payment when coupled with indexation on 20 September 2025. Given the large number of individuals in this group whose payment rate would not decrease after indexation and deeming rate changes, this moderates the negative impact of those who would see a decrease in their payment rate.</p> <p><b>Community confidence in the social security system (1)</b></p> <p>This option supports the original intent of the deeming rules and the targeted nature of the social security system.</p> <p><b>Predictability (1)</b></p> <p>This option would give individuals certainty around when deeming rates will change and the framework to change them.</p> <p><b>Reasonable transition (2)</b></p> <p>Incrementally increasing the deeming rates gives individuals time to adjust to the changes.</p> <p><b>Overall (1)</b></p>
Social security recipients not impacted by deeming rates changes	-1	1	<p><b>Fairness and equity (-2)</b></p> <p>Social security recipients on a rate of payment not impacted by deeming would see the continuation of the current deeming rates as providing an unfair concession to income support recipients with deemed income.</p> <p><b>Community confidence in the social security system (-1)</b></p> <p>This stakeholder group may lose confidence in the social security system if it provides a disproportionate ongoing</p>	<p><b>Fairness and equity (2)</b></p> <p>This option seeks to transition the deeming rates to levels where outcomes are comparable between those with income from financial investments and those with income from other sources.</p> <p><b>Community confidence in the social security system (1)</b></p>

Stakeholder	Option no.		Explanation	
	1	2	Option 1: Maintain the status quo	Option 2: Incrementally increase deeming rates
			<p>concession on investment income compared to the other types of income.</p> <p><b>Predictability (-1)</b></p> <p>This option does not provide any certainty to individuals or provide a framework that can give individuals confidence in the system.</p> <p><b>Reasonable transition (0)</b></p> <p>There is no transition for this option.</p> <p><b>Overall (-1)</b></p>	<p>The deeming rates would be set at a level that aligns with the intent and objectives of deeming rules and the social security means test.</p> <p><b>Predictability (1)</b></p> <p>This option would give individuals certainty around when deeming rates will change and the framework to change them. While this group may not currently be impacted by deeming rates, it is possible that they may be impacted in the future, and this option provides them with some predictability about how the deeming rates may change.</p> <p><b>Reasonable transition (1)</b></p> <p>Incrementally increasing the deeming rates gives individuals the time to adjust to the changes. If changes in deeming rates are going to newly impact some individuals in this group, the change will be incremental.</p> <p><b>Overall (1)</b></p>
Broader public	-1	1	<p><b>Fairness and equity (-1)</b></p> <p>By keeping deeming rates at their current levels, this option treats income from financial assets concessionally compared to other forms of income. The broader public would see this as unfair and inequitable.</p> <p><b>Community confidence in the social security system (-1)</b></p> <p>This stakeholder group may lose confidence that the social security system is appropriately targeted to need. This option would be supported by advocacy groups who have called for the freeze to be extended until 2026.</p> <p><b>Predictability (-1)</b></p> <p>This option does not impact individuals not receiving an income support payment, but they may do so in the future and this option does not provide any certainty about when the deeming rates might change or provide a framework that can give the broader public confidence in the system.</p> <p><b>Reasonable transition (0)</b></p> <p>There is no transition for this option.</p> <p><b>Overall (-1)</b></p>	<p><b>Fairness and equity (1)</b></p> <p>This option would improve fairness within the social security system by ensuring that those with similar means would receive a similar level of support.</p> <p><b>Community confidence in the social security system (1)</b></p> <p>This stakeholder group may see this option as effective targeting of the social security system following the three-year freeze of the deeming rates. This option responds to the suggestions and concerns seniors advocacy groups.</p> <p><b>Predictability (1)</b></p> <p>This option does not impact individuals not receiving an income support payment, but they may do so in the future and this option provides certainty about when and how the rates might change. This will promote broader public confidence in the system.</p> <p><b>Reasonable transition (1)</b></p> <p>Incrementally increasing the deeming rates gives individuals the time to adjust to the changes.</p> <p><b>Overall (1)</b></p>
Total	-1	1		



Australian Government

## THE DEPARTMENT OF SOCIAL SERVICES

### 7. How will you evaluate your chosen option against the success metrics?

Once the deeming rates are adjusted via ministerial determination, they will remain at the resulting levels until another ministerial determination is made.

To ensure the deeming rates continue to reflect the relevant investment returns, they would be reviewed twice a year in the lead up to each 20 March and 20 September indexation day. Advice would be provided to the Minister for Social Services, taking into account:

- The investment returns reasonably available to pensioners and other income support recipients at the time;
- Services Australia administrative data, such as:
  - The number of recipients affected by deemed income, their payment types and other circumstances; and
  - The broad types of financial assets held by these recipients;
- Broader financial and economic data, which may include inflation indicators (CPI, PBLCI etc) and the RBA cash rate.

Under a related proposal, the twice-yearly review of the deeming rates would be undertaken by the Australian Government Actuary (AGA). The AGA would advise Government on the most appropriate levels for the deeming rates, guided by the returns that pensioners and other payment recipients can reasonably access on their investments. The Minister for Social Services would retain responsibility for setting the rates under the Act.