8 July 2016

Centrelink Asset Tests Changes - Strategy Sheet

From the 1st of January 2017 many pensioners will be left out of pocket with the new Aged Pension laws to take effect. Depending on your level of assets you may be affected greatly.

Asset test changes from 1 January 2017

	Lower Threshold (Full pension below this point)		**Upper Cut Off Point (No pension above this point)**	
	Current	**1 Jan 2017**	**Current**	**1 Jan 2017***
Single Homeowner	$205,500	$250,000	$788,250	$541,300
Single Non-Homeowner	$354,500	$450,000	$937,250	$741,300
Couple Homeowner	$291,500	$375,000	$1,170,000	$814,000
Couple Non-Homeowner	$440,500	$575,000	$1,319,000	$1,014,000
Taper rate increased from $1.50 pf to $3.00 pf for every $1,000 above the lower threshold				

***estimated rates based on current Age Pension benefits. Actual cut offs will depend on the maximum Age Pension rate at 1 Jan 2017. Primary residence is excluded from the Age Pension means test.**

There are some vital strategies that may help you maximise your entitlement prior to and after these changes occur. As always please speak to us about these strategies as the below information is general in nature and does not take into account your personal situation, needs or objectives.

Gifting

Gifting assets to children or loved ones can lower your assessable assets and increase your pension. Only a certain level of gifting is allowed before it is counted as a 'deprived asset'.

Period	**Maximum**
Annually	$10,000
Rolling five year period	$30,000

Amounts above these will be counted as a deprived asset for up to 5 years.

Example: A couple gifts $10,000 this financial year to their son to assist with his educational expenses. In July a new financial year has begun so they gift a further $10,000 to their daughter to reduce her mortgage. The couple cannot gift further lump sums until next financial year but have potentially increased their age pension entitlement by a maximum of $1,560 pa by reducing their assessable assets by $20,000.

Funeral Bonds

A funeral bond is basically an investment vehicle that allows you to accumulate non-assessable funds (up to a certain limit) that go towards your funeral. Think of them as an effective way to prepay your funeral and increase your income from the Aged Pension. While there are several ways to prepay a funeral its best if you speak to our office first as the rules regarding the purchase of funeral bonds can be complex.

This is general advice only and does not take into account your financial circumstances, needs and objectives. Before making any decision based on this document, you should assess your own circumstances or seek advice from a financial adviser and seek tax advice from a registered tax agent. Information is current at the date of issue and may change.

Example: A couple invests $22,500 into two funeral bonds (one for each person) which decreases their assessable assets by this amount. This increases their age pension entitlement under the assets test by $1,755 pa.

Pre Paying Holidays

Spending money on big ticket items such as overseas holidays (be careful about the length of time spent abroad with Centrelink rules) can increase your Aged Pension entitlement. In most cases this is best done by spending money that isn't invested for other purposes, such as your retirement. For example, funds held inside a bank account are ideal for spending as they generally underperform superannuation and deeming levels. Remember that money in the bank and in super may be deemed in the same way by Centrelink and affect your age pension equally, that being said there are cases where spending money from super is warranted. Make sure to speak with us before making any arrangements.

Example: Joe and Mary have a family wedding in Malta in March 2017. The cost is estimated to be $25,000. The couple can prepay this holiday and inform Centrelink that they have spent these funds, which has the potential to increase their age pension by a maximum of $1,950 pa.

Primary Residence Renovations or Maintenance

One of your largest investments is your home; it is also non-assessable for the Centrelink means test. Homes are also in constant need of maintenance, repair and in some cases renovation; by spending money on your home you are increasing its value while at the same time decreasing your assessable assets.

Example: Steve and Stephanie know that they have a list of jobs totalling $60,000 that they would like to do to their home. They understand that this is a lot of money but are also aware that their cash reserves of $100,000 in a Term Deposit is expiring and the renewal is just 2.5% for 12 months. By bringing forward the spending on their home they can potentially increase their age pension by a maximum of $4,680 pa while at the same time increasing the value of their property and having the repairs fully taken care of for retirement.

Lifetime Annuities

Lifetime annuities are retirement income products; they provide a set amount of guaranteed income periodically. The Funds are normally locked away until maturity and the income from annuities is paid periodically (i.e. monthly) rather than at maturity. This makes them ideal for income streams, think of them as a pay cheque in retirement. Great care must be taken when investing in an annuity as the rules and structures of annuities are highly complex and each annuity must be tailored to your personal circumstances. Some annuity structures can provide a deductable amount benefit. Depending on your circumstances this can be used to enhance both the Centrelink income and assets test which may result in an increased Age Pension.

The increased income you receive from the annuity and Age Pension can then be used to increase your standard of living, keep in mind that if the additional income simply accumulates in your bank account it will become assessable for the Age Pension which could also affect your entitlement. Annuities are highly customisable so make sure you speak with us before you consider purchasing one.

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