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# Case Study

## How to Mitigate Changes to The Age Pension Assets Test

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## How to Mitigate Changes to The Age Pension Assets Test

As a follow up from the article in the August 2016 Trade Secrets "Changes to the Centrelink Assets Test: January 2017" by Bree Hallett, covering changes to the Assets Test thresholds may have an impact on your current Age Pension entitlements. This follow on article discusses ways to combat the upcoming reduced asset test limit.

Based on the current assets test thresholds, for every \$1,000 reduction, a person will receive an additional \$39 per annum in Age Pension. However, with the new thresholds coming into effect from 1 January 2017, a person will receive an additional \$78 per annum in Age Pension.

If a single or a couple are over the new upper Assets Test

thresholds of \$542,500 or \$816,000 respectively (for a homeowner), attempting to reduce assets may not be a worthwhile strategy particularly if your assets are near the current upper thresholds of \$793,750 (single) and \$1,178,500 (couple).

However, if your assets are near these new upper thresholds, it may be worthwhile to try and reduce them in order to retain an entitlement to the Age Pension.

The options that are available, in order to reduce your asset base include:

### Spending cash funds

This can include undertaking home maintenance or prepaying upcoming travel.

### Purchasing a Funeral Bond

A funeral bond sets money aside, and is used to pay for the owner's funeral expense upon their passing. Money from the funeral bond can only be withdrawn from a funeral bond, upon the death of the owner.

Each member of a couple can purchase a Funeral Bond, up to the initial purchase amount of \$12,500 (for the 2016/2017 Financial Year). Therefore, a couple can invest a combined \$25,000 in Funeral Bonds, and have the asset remain exempt from Centrelink's Assets Test.

Furthermore any growth within the Funeral Bond remains exempt from Centrelink's Assets Test and any funds not spent on a person's Funeral will be returned to the person's Estate.

### Gifting

Gifting funds is another option to decrease the value of assets assessed by Centrelink. However, there are restrictions around the amounts and timeframes that a person can gift funds. These are:

1. A maximum of \$10,000 can be gifted within a single Financial Year (regardless of whether a person is a single or a member of a couple).
2. A total of \$30,000 only can be gifted over a rolling five year period.

## Superannuation

Currently superannuation assets that are held in the accumulation phase are exempt from the Assets Test while that person is under their Age Pension qualifying age. Therefore, transferring superannuation assets to a younger, non-Age Pension recipient could be considered.

However there are a few key points to note, if this strategy is to be used. These include:

- The receiving spouse's superannuation funds must remain in the accumulation phase, and they do not commence a pension from these assets.
- If funds are transferred between spouses, care must be taken to ensure that the non-concessional contribution limits are not exceeded.
- The transferred assets will become assessable when the younger spouse reaches their Age Pension age.
- What their combined income is.

## Case Study: John and Mary

Let's see what effect implementing one or more of these strategies has on a couple's Age Pension entitlements, in light of the upcoming changes to Centrelink's Assets Test.

John and Mary, both aged 67, own their own home, and currently receive part of the Age Pension. Between them, they have the following assets:

Assets (combined)	Amount
Superannuation	\$540,000.00
Cash Accounts	\$5,000.00
Motor Vehicles	\$10,000.00
Contents	\$10,000.00
<b>Total Assets</b>	<b>\$565,000.00</b>

Under the current Assets Test thresholds, they receive \$459.83 each per fortnight in Age Pension, or \$11,955.58, each, per annum.

However, with the new Assets Test thresholds coming into effect on 1 January 2017, their Age Pension entitlement will reduce to \$376.20 each a fortnight, or \$9,781.20, each per annum.

With the change in the Asset Test threshold from 1 January 2017, John and Mary will lose \$83.63 each per fortnight in Age Pension. However, if John and Mary each purchase a Funeral Bond at that point for a combined purchase price of \$25,000 (as shown in the far right column), their loss in Age Pension is then only \$46.13 each per fortnight. This is shown in Table 1 below:

TABLE 1

ASSET TEST	Current	From 1 Jan 2017	From 1 Jan 2017 - Each purchase a Funeral Bond
Asset	Amount	Amount	Amount
Superannuation	\$540,000.00	\$540,000.00	\$515,000.00* (Reduced to pay for Funeral Bonds)
Cash Accounts	\$5,000.00	\$5,000.00	\$5,000.00
Motor Vehicles	\$10,000.00	\$10,000.00	\$10,000.00
Contents	\$10,000.00	\$10,000.00	\$10,000.00
<b>Total Assets</b>	<b>\$565,000.00</b>	<b>\$565,000.00</b>	<b>\$540,000.00</b>
Lower Threshold	\$291,500.00	\$375,000.00	\$375,000.00
Assets Above Lower Threshold	\$273,500.00	\$190,000.00	\$165,000.00
Pension Entitlement per fortnight (each)	\$459.83	\$376.20	\$413.70
Annual Pension Entitlement (each)	\$11,955.58	\$9,781.20	\$10,756.20
Loss in Age Pension per fortnight (each)		\$83.63	\$46.13

## In Summary

There are a number of things that can be done to maximize a person's entitlements under Centrelink's Asset Test. These include:

- Spending the money on your home or travel,
- Purchasing Funeral Bonds or pre-paying for funerals,
- Gift funds to another person or charity, or
- Transferring superannuation funds from the older member of a couple to the younger member. Albeit this strategy will only remain applicable, until the younger spouse reaches Age Pension age.

However, there are implications for each of these strategies that need to be considered. Therefore, professional advice regarding your personal situation should always be sought.

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