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Case Study

Your Assets and Centrelink's Asset Test

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Your Assets and Centrelink's Asset Test

As you may recall, there are two tests that Centrelink apply, when determining a person's Age Pension entitlements. They are the Asset Test and the Income Test. The amount of Age Pension that a person will receive is determined by the test that produces the lowest Age Pension entitlement.

In the last issue of Trade Secrets, our Case Study looked at Centrelink's Income Test, and the changes in the assessment of a person's Account Based Pensions. In this article, we look at Centrelink's Assets Test, and what options there are to decrease the total amount of Assessable Assets.

The current thresholds, for Centrelink's Asset Tests, along with the new thresholds that are coming into effect on 1 January 2017 are shown in the table below.

	Current Asset Thresholds - From 20 Sept 2015		Asset Thresholds - From 1 Jan 2017	
Homeowner	For Full Pension	For Part Pension	For Full Pension	For Part Pension
Single	\$205,500	\$783,500	\$250,000	\$547,000
Couple (combined)	\$291,500	\$1,163,000	\$375,000	\$823,000
Non-homeowner				
Single	\$354,500	\$932,500	\$450,000	\$747,000
Couple (combined)	\$440,500	\$1,312,000	\$575,000	\$1,023,000

There are a number of things that can be done to decrease your level of assessable assets under Centrelink's Asset Test, and potentially assist in increasing your Age Pension entitlements.

Home maintenance, travel, or spend the cash funds

As the family home (and surrounding land up to 2 hectares) is exempt from Centrelink's Assets Test, spending funds on the family home may assist. Further, going on a holiday, or prepaying for upcoming intended travel, is another option. Please note that this results in a depletion of liquid funds.

Funeral expenses

Another option may be to prepay for funeral expenses (up to any amount provided costs are not refundable) or purchase a Funeral Bond. Each member of a couple can purchase a Funeral Bond, up to the initial purchase amount of \$12,250 (for the 2015/2016 Financial Year). This means that members of a couple can effectively hold up to \$24,500 in Funeral Bonds. Further, any growth in the value of the Bond remains exempt from Centrelink's Assets Test assessment.

Gifting

Currently, Centrelink do not assess funds that are gifted under the following two conditions. Firstly, 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). Secondly, a total of \$30,000 can only be gifted over the course of five years, to ensure the total amount(s) gifted remain exempt under the Asset Test. Again, please note that this results in a depletion of liquid funds.

Superannuation

An alternative to these options is transferring superannuation assets from one member of a couple to another. This strategy can be particularly effective where one member of a couple is receiving, or about to qualify, for the Age Pension, and the other person will not qualify for the Age Pension for some time.

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. The key point to note is that these assets must remain in the accumulation phase, and that person does not commence an income stream from these assets. Provided that a condition of release (i.e. retirement after a person's preservation age) has been met, this person may also have access to these superannuation funds that are held within the accumulation phase and tax free after the age of 60.

Another key point here is to ensure that funds 'transferred' from one member of a couple can be re-contributed to the other persons superannuation, and that the non-concessional contribution limits of \$180,000 p.a. or \$540,000 (over a three year rolling period, for people under the age of 65 years) will not be exceeded.

Case Study – Peter and Sue

Peter and Sue are both about to retire. Peter is 65 and Sue is 56 and they own their own home. Between them, they have the following assets:

Assets	Value
Car and Contents	\$10,000
Cash at Bank	\$44,500
Peter's super	\$790,000
Sue's super	\$48,000
Total Assessable Assets	\$892,500.00

Assuming no changes are made to their financial situation, and based on Centrelink's current Asset Test thresholds, Peter is likely to receive an estimated Age Pension of \$233 per fortnight (\$6,058 p.a.). As Sue is under Age Pension age, Sue does not qualify to receive any Age Pension.

Should Peter and Sue's affairs remain as they are currently structured, upon the new Asset Test thresholds coming into force from 1 January 2017, Peter will become ineligible for any Age Pension. This is because their combined assessable assets exceed the new upper threshold (\$823,000) to receive any Age Pension.

However, before 1 January 2017, Peter and Sue receive some advice regarding the structure of their financial affairs. The advice that they receive includes undertaking the following strategies:

- Gifting \$10,000 both this Financial Year and next (a total of \$20,000);
- Each purchase a Funeral Bond for \$12,250;
- Withdraw \$180,000 from Peter's superannuation assets, and re-contribute the total funds into Sue's superannuation this Financial Year; and

- Withdraw \$223,000 from Peter's superannuation assets and re-contribute the total funds into Sue's superannuation next Financial Year.
- Leave Sue's total superannuation assets within the accumulation phase.

Upon undertaking these strategies, their Assessable Assets, and Peter's respective Age Pension entitlements from 1 January 2017, are outlined in the table below:

	Before	After
Assessable Assets	\$892,500.00	\$445,000.00
Lower Threshold	\$375,000.00	\$823,000.00
Amount Above Threshold	\$517,500.00	\$70,000.00
Reduction (p.f.)	\$776.25	\$105.00
Full Age Pension (p.f.)	\$648.40	\$648.40
Actual Age Pension (p.f.)	\$ -	\$543.40
Actual Age Pension (p.a.)	\$ -	\$14,128.40
Improvement (p.a.)		\$14,128.40

As shown, Peter goes from not being entitled to any of the Age Pension, to becoming eligible for Age Pension of \$543.40 per fortnight. This is a total of \$14,128.40 p.a. for 11 years, at which point Sue will reach her Age Pension age.

Further, Peter can also start an income stream, from his Superannuation Assets, and start drawing a pension payment without it affecting his Age Pension. Additionally, as Sue is retired (and therefore met a condition of release), there is the ability to make lump sum withdrawals from Sue's superannuation.

In Summary

There are a number of things that can be done to maximize a person's entitlements under the Asset Test for the Age Pension. These include, spending the money on your home or travel, purchase Funeral Bonds, or gift funds to another person or charity. Alternatively, if you are a member of a couple transferring superannuation funds from the older member, to the younger member, may also assist in maximizing any Age Pension entitlements.

However, one should always be mindful that there is also the Income Test that Centrelink use to quantify a person's entitlements. Therefore, these strategies also need to take this into consideration, and advice from a professional, regarding your personal situation, should always be obtained.

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