MLC TechConnect

Guide to Social security strategies

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Guide to Social security strategies

24 September 2024

This guide explains strategies that may improve social security entitlements for clients during their lifetime and for their beneficiaries after they pass away.

Introduction

Entitlement to income support payments is determined based on criteria for each type of payment. The income and assets owned by a person (and/or their partner) are considered and the rules valuing income and assets can differ between payments.

For Age Pension purposes, a person's entitlement is calculated based an income and assets test. Whichever test provides the lowest entitlement, determines a person's rate of payment.

Over the years, the Government has tightened means-testing arrangements that apply to different types of income and assets. Broadly, this was to provide social security support to those who need it. As a result, there are few strategies that can be used to improve social security payments.

Many of these strategies may have limited application when used in isolation. This is largely due to reducing assessable income and/or assets having a modest impact on increasing social security benefits. However, it is still possible to improve the person's entitlement by combining several strategies that suit their circumstances.

Advisers can use the **MLC Age Pension calculator** to determine a clients' entitlement to the Age Pension before and after the use of a strategy.

Impact of reducing income and/or assets

Some individuals focus solely on obtaining social security benefits without considering what is forgone to receive an income support payment. Table 1 below shows that the benefit of reducing income or assets maybe limited for those who already receive a part-pension.

Table 1: Benefit of reducing income or assets

	Pensions	Allowances
Decrease assets by $10,000	Increase pension by $30 p/f for a single person or couple combined	N/A – most allowances are not paid once assets exceed the low assets test thresholds. Reducing assets below the lower asset test threshold may allow entitlement.
Decrease assessable income by $1,000 pa	Increase pension by $19.23 pf for a single person or couple combined.	Increase allowance by $23.08 pf[1]

People who do not qualify for the Age Pension may want to consider their eligibility for the **Commonwealth Seniors Health Card**, rather than seeking to use strategies that obtain a small amount of pension to be eligible for the Pensioner Concession Card.

Refer to our **Centrelink fact sheet** for current rates and thresholds.

[1] This assumes assessable income of $1,000 is above $256, but less than cut-out threshold, where the reduction factor is 0.6.

Strategies available

1. Renovate principal residence

When homeowners apply for income support, the value of their principal home is exempt under the assets test, regardless of its value. Areas of the principal home may be assessable if used for specific activities such as for business purposes or where self-contained living areas are leased to parties other than a near relative.

Spending money on repairing or renovating a home can therefore increase the home value, reduce the amount of assessable assets and potentially reduce the amount of income counted under the income test. For example, installation of green or energy efficient devices, such as solar panels may improve the value of the home, and at the same time, reduce assessable assets (potentially reducing assessable income). While solar feed-in tariffs paid as an electricity account credit are not assessed as income, solar feed-in tariffs paid as cash may be assessed as income for 12 months.

Before considering spending money on the home, clients should consider the reduced liquidity by investing money in their home. Sufficient liquidity should be maintained to cover expenses, including emergencies, and ensure they don't overcapitalise their property.

2. Provide market value for personal assets

Personal assets, such as home contents and cars, are valued at net market value. This is the amount that a person would reasonably expect to receive if they sold the asset on the open market, for example, at a garage sale. This could be different to the insured value.

Generally, social security assesses the value of a person or couple's personal effects and household assets as being $10,000[2] unless the person or couple indicates a different value. If the person's personal assets are worth more than $10,000, they are required to disclose the correct value. Clients who have previously advised the insured value of their personal assets may amend the value to the net market value.

Similarly, if assets have depreciated in value over time, and a person would not expect to sell the item on the open market for the value initially notified, a person may revise the value reported to Centrelink. There is an obligation to provide a reasonable value for assets. For example, if a person has valuable antiques in their home, then an amount reflecting the net market value should be provided to ensure the correct entitlement is received.

3. Gift assets

The social security gifting provisions limit the assets and income that may be disposed of, without impacting the person's (or their partner's) entitlement to social security benefits. When gifts above the thresholds are made, the deprivation rules determine the impact on entitlements. Assets can be gifted up to $10,000 per financial year, subject to a limit of $30,000 across a five-year rolling period, before there is any impact on social security entitlements. These same limits apply for singles and couples. Gifts made above these limits are considered deprived assets. The amount is deemed under the income and assessed for the assets test for five years from the date of the gift.

☑ Advice tip

In cases where the strategy is implemented towards the end of the financial year (eg in June) the first gift can be made in June and the second in July, as the $10,000 gifting threshold is based on financial years. This allows $20,000 to be gifted within a period of two months, June and July.

The disposal of an asset which takes place more than five years prior to becoming eligible for a social security benefit or pension is disregarded.[3] While an individual may not always be able to predict with accuracy when a social security entitlement will arise, there is a planning opportunity for those approaching Age Pension age to make gifts at least five years prior to any possible entitlement (if appropriate).

Should a person wish to gift an amount of money or transfer other assets (eg bringing forward an inheritance), they should consider doing this at least five years before reaching Age Pension age. Aged Care costs could also be reduced through gifting five years in advance of entering an Aged Care facility. This is because the client will have less assessable assets for Aged Care means testing fees. Gifting rules are further explained in the following examples.

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2 Social Security Act 1991 (SSA) s1118(3).

3 SSA s1127.

Example 1: An asset gifted seven years before reaching Age Pension age

Joe will reach the qualifying age for Age Pension in seven years. If Joe wishes to gift an asset (valued at $500,000) to his children, he can do so now, and the amount/asset gifted is not assessed when calculating his pension entitlement at Age Pension age. This is because Joe gifted more than five years prior to becoming eligible for the Age Pension.

Example 2: An asset gifted two years prior to reaching Age Pension age

If Joe gifts the same asset (valued at $500,000) two years prior to reaching Age Pension age, gifting rules apply to the asset when he becomes eligible for the Age Pension. Under the gifting rules, Joe can gift up to $10,000 in a single financial year without triggering deprivation rules (an allowable gift is exempt from the assets and income tests). The remaining balance of $490,000 is assessed as a deprived asset (assessed for asset test purposes and deemed income for income test purposes) for three years from Age Pension age.

Example 3: An asset gifted while receiving Age Pension

If Joe gifts the same asset after becoming eligible for the Age Pension, the deprived amount of $490,000 is assessed for five years from the date of the gift. This means the amount of $490,000 is assessed for assets test and deemed for income test for five years. The first $10,000 is assessed as an allowable amount gifted under the gifting provisions and is exempt from assessment.

Gifting within the limits may provide a small increase in income support payment. However, clients need to ensure that they are not gifting assets they should be retaining such as for liquidity, cashflow, future capital or Aged Care purposes. For additional information, refer to our article **Gifting rules in practice.**

Advice tip

If a person triggers the deprivation rules and the deprived amount is subsequently returned to the person, Centrelink reduces the amount of the deprived asset by the amount that has been returned[4].

Guarantor and loan arrangements

A person who enters an arrangement as guarantor does not trigger the deprivation rules. However, if the borrower defaults on the loan, the guarantor becomes liable to repay the debt. Deprivation rules apply to the amount the guarantor pays (from the date the guarantor repaid the loan or sold an asset to repay the loan) on behalf of the borrower.

An exception to the deprivation rules applies if the guarantor takes legal action against the borrower to recover the amount they repaid. The amount repaid by the guarantor is a debt owing to the guarantor and is assessed as an asset of the person with the assessable value being the recoverable value. Deeming does not apply in this case as a debt is not considered a financial investment.

Transfers between members of a couple

The gifting or transferring of assets between the members of a couple does not trigger the gifting rules or deprivation. Couples are assessed on joint assets and income. This is also the case where the amount is invested in assets receiving favourable social security treatment.

Example 4: Gifting between members of a couple

Martin (aged 67) and Helen (aged 62) are a married couple. Martin has retired and receives a part Age Pension, while Helen continues to work part-time. If Martin withdraws some or all of his super balance and contributes the proceeds into Helen's super, the amount re-contributed is not assessed as a gift when determining Martin's rate of Age Pension. In addition, the amount contributed to super for Helen is exempt from Martin's Age Pension assessment and as such, may improve his Age Pension entitlement. This assessment continues until Helen reaches Age Pension age, allowing Martin to receive a higher rate of pension in the meantime.

4 SSA s1106 and s1123.

4. Invest in a funeral bond or pre-pay funeral expenses

Funeral bond investments are exempt from both the assets and income tests up to a certain threshold ($15,500 for 2024/25). The value is based on the initial investment and any growth is ignored. If the initial investment made in the funeral bond exceeds the exempt threshold, the exemption does not apply and the entire investment is assessed under the income and assets test.[5]

Example 5: Investing in a funeral bond

Theresa invested $12,000 in a funeral bond four years ago which was less than the threshold at that time. This investment is now worth $16,000 due to growth. The amount of $16,000 is exempt from Theresa's Age Pension assessment as the initial amount invested was less than the allowable threshold at the time of purchase and the growth is ignored.

If instead, Theresa initially invested $15,000 (which was above the allowable threshold at that time) and the investment is now worth $18,000, the full value of that investment ($18,000) is assessed for assets test purposes and deemed for income test purposes.

Advice tip

Each member of a couple can invest up to the threshold in an exempt funeral investment in individual names. If a joint investment is made, the joint investment is subject to the single threshold. Therefore, members of a couple may prefer to invest individually rather than jointly to maximise the amount that can be exempt from assessment.

Pre-paid funeral expenses are exempt under both the income and assets tests. A pre-paid funeral is a contract to provide funeral services and the payment cannot be refunded unless the person moves outside the designated funeral services area. There is no limit on the amount to pre-paid funeral expenses.

A person cannot have an exempt funeral bond investment if they already have pre-paid funeral expenses. Where funeral expenses have already been pre-paid[6], the funeral bond is an assessable asset and deemed.

A **funeral or burial plot** is also an exempt asset. Each member of a couple can have a funeral plot which is an exempt asset regardless of value.

5. Contribute to super

In the accumulation phase, super is not assessed under the income or assets tests if the person is under Age Pension age. Age Pension age is 67. When Age Pension age is reached, super becomes an assessable asset and is deemed.

Clients under Age Pension age and receiving certain social security benefits (such as the Disability Support Pension, Carer Payment or JobSeeker Payment) may want to invest in super to reduce their assessable assets and income.

Where one member of a couple is under Age Pension age, money may be contributed to super in the younger person's name. This can include the older member of the couple withdrawing funds from their super and contributing the proceeds back into their younger spouse's account (provided contribution eligibility criteria is satisfied).

Amounts transferred between members of a couple are exempt from gifting rules. However, before using this strategy consider:

- contribution caps, total super balance and if the client is in a bring-forward period for non-concessional contributions
- investment earnings are taxed at up to 15% in super while in accumulation phase and should be compared to the increase in social security benefits
- all new contributions are preserved in super and can only be accessed once the receiving spouse meets a condition of release
- cashflow requirements for both members of a couple, if super is not accessible, and
- awareness that people who are on JobSeeker Payment and over preservation age may have difficulty satisfying the retirement condition of release to access their preserved super.

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5 SSA s19E
6 SSA s19E(1)(a).

Advice tip

A person who is on JobSeeker Payment must undertake an activity test. For some people this is actively seeking employment. Therefore, it is not possible to state that a person who is actively seeking employment has no intention to return to gainful employment, which is required to satisfy the standard retirement definition to access preserved super when aged between age 60 and 65.

Conversely, a person who is unemployed and received a government income support payment for a cumulative period of 39 weeks since reaching age 60 can access all their superannuation under the financial hardship condition of release.

For additional information on superannuation conditions of release, refer to our **Guide to Accessing Super.**

DVA recipients

Accumulation phase super is exempt for DVA purposes when a person is below the relevant age limit. For veterans this is age 60. Partners of veterans who do not have eligible service (ie are not veterans) may receive a Partner Service Pension from age 60 and at a younger age in limited circumstances. Even so, the age at which their accumulation phase super is assessed is age 67 (Centrelink Age Pension age).

Maintain grandfathered Account Based Pension

Certain account based pensions (ABPs) that commenced prior to 1 January 2015 receive favourable treatment under the income test. Rather than being deemed, these ABPs are assessed on income received less a deductible amount. The deductible amount is based on factors such as the original purchase price of the pension, amounts subsequently commuted from the ABP, and the person's life expectancy at commencement.

Advice tip

Grandfathering rules continue for ABPs started prior to 1 January 2015, if the client:

- was receiving an income support payment immediately before 1 January 2015, and
- continuously receives an income support payment from 1 January 2015.

Similarly, grandfathered ABPs are exempt from the assessment when determining eligibility to the Commonwealth Seniors Health Card (CSHC). An ABP is grandfathered for CSHC purposes if the ABP was commenced prior to 1 January 2015 and the person was a cardholder immediately before that day and they continuously held the card since 1 January 2015.

Care should be taken if ceasing a pension that is grandfathered, for example to commence an ABP with another provider. Any ABP commenced from 1 January 2015 is deemed for social security and CSHC purposes. This is regardless of whether the original ABP resulted from the commutation of an ABP captured under the grandfathering rules.

7. Reset grandfathered Account Based Pension

There may be instances where an individual is eligible to receive a higher rate of income support payment if their ABP is not subject to grandfathered provisions and is deemed instead. This generally occurs when an individual receives pension payments well above their deductible amount and as a result, the level of income assessed reduces their social security entitlement. For those who are income-tested, depending on other circumstances, it may be beneficial instead to opt for the deemed income treatment, if the deemed income amount is less than the income assessment under the current deductible rule.

Resetting a pre-1 January 2015 ABP may also be considered when an individual is not happy with their current ABP provider, their income support payment entitlement is determined by the assets test and based on their level of assets it is likely that their pension entitlement will be determined by the assets test for the foreseeable future. In these circumstances, changing providers and resetting the ABP will have no immediate impact on their payment.

For additional information refer to our article **Providing advice on grandfathered account-based pensions.**

8. Gift to Special Disability Trust

A Special Disability Trust (SDT) is a trust usually established by parents and immediate family members for the care and accommodation needs of a person with a severe disability or medical condition.

Eligible immediate family members from Age Pension age can gift up to a combined amount of $500,000 (unindexed) into an SDT without the money being assessed under the gifting rules. This amount is an exempt amount from both the assets and income tests.

Immediate family members for SDT purposes include natural parents, legal guardians, adoptive parents, step-parents, grandparents and siblings (such as brother, sister, half-brother, half-sister, adoptive brother and sister, step-brother or a step-sister).

Advice tip

Anyone can gift to an SDT except the beneficiary (ie the person with the disability), their partner (if any) and the settlor of the trust. Contributions by the beneficiary and their partner are allowed only if the amount is from a bequest or super death benefit and is if gifted to the SDT within three years of receipt. An extension of this timeframe may be granted at the discretion of Centrelink, where receipt is delayed such as by legal action.

Immediate family members who are within five years of Age Pension age or over Age Service Pension age and are not on a pension may contribute to an SDT and take advantage of the gifting concession later when they reach qualifying age, provided the gifting concession has not been fully used previously. Where there is more than one contributor to the trust, the combined concession first applies to those eligible family members who are receiving a pension after age or service pension age.

For the beneficiary of the trust, all assessable trust assets up an indexed threshold[7] ($813,250 for 2024/25) are exempt from the assets test. All trust income is excluded from the income test. Generally, the beneficiary would be receiving a Disability Support Pension or Age Pension and may benefit from this concession.

The establishment of an SDT for an immediate family member may be considered as part of pre-estate planning. The rules relating to the assessment of SDTs are complex and the appropriateness of an SDT should be considered, aside from any means testing advantages gained. Advice must be sought from the Services Australia or Veterans' Affairs before the strategy is implemented.

Further information can be found in our article **Special Disability Trusts explained.**

Example 6: Gifting to an SDT

Elvis and Priscilla are a married couple over Age pension age and have two adult children, Mary and Rodney. Mary is 40 years old is severely disabled and receives Disability Support Pension. Rodney is 35 years old and is running a successful business. Elvis and Priscilla are part Age Pensioners.

Elvis and Priscilla sought advice from their financial planner, legal practitioner and Services Australia and decided to establish an SDT for Mary. They wish to gift $500,000 to the trust to ensure Mary has sufficient funds to cover care and accommodation costs when they are no longer around or if they need to enter residential Aged Care. The outcome of the strategy for social security purposes could be:

- The $500,000 transferred into an SDT is not assessed for social security and Aged care purposes for Elvis, Priscilla or Mary. As a result, Elvis and Priscilla may be able to increase their entitlement to the Age Pension and Mary continues to receive Disability Support Pension.
- If Elvis or Priscilla enter residential Aged Care, the $500,000 gifted is exempt from the assessment of fees and charges payable.
- The amount held in the SDT is exempt for Mary up to the annual threshold. All SDT income is exempt for the income test.
- In the event of the contributor's death, the $500,000 gifted to an SDT does not form part of Elvis's or Priscilla's estate, as this is now an asset of the SDT.

7 This threshold may be indexed on 1 July each year. A main residence of the beneficiary held in the trust does not count to this limit.

9. Re-arrange assets prior to partner's death

Upon the death of a member of the couple, the surviving partner's entitlement may be impacted due to the income and assets test thresholds for a single person. With appropriate planning, assets can be distributed away from the surviving spouse to reduce the impact on their entitlement and ensure these assets are not assessed as a gift for the surviving spouse. This outcome can be achieved in two ways:

- Upon death, jointly held assets automatically passes onto the surviving spouse, which could increase their assets and income resulting in a reduction in their age pension. If the surviving spouse subsequently gave these assets away to other beneficiaries, deprivation rules applies. If there is an opportunity to hold assets in individual names (rather than jointly), then upon death, there is the ability to distribute those assets to another beneficiary other than the surviving spouse via the Will. This ensures no deprivation implications to the surviving spouse as fewer assets/income are assessed against them. If existing assets are held jointly (between couples), there may be an opportunity prior to death, to restructure ownership from joint to tenants-in-common (between the couple). This ensures that each partner may update their Will to distribute assets to other beneficiaries. In some cases, there may be stamp duty and CGT implications to consider.
- If there is an intention to provide an early inheritance, consider gifting assets prior to death that are held solely in the name of one partner, rather than jointly held assets. This may be particularly relevant if the person is terminally ill or in very poor health. That way, upon death, the amount of disposition held against the surviving partner as a deprived asset is reduced to zero[8].

Care should be taken to ensure that the surviving spouse is left with sufficient assets to provide for their remaining years, to cover general living and future Aged Care costs.

10. Pay Refundable Accommodation Deposit

An individual entering residential aged care may pay any accommodation payment which can be paid as a lump sum refundable accommodation deposit (RAD), a daily accommodation payment (DAP) or a combination of RAD and DAP. For social security purposes, the RAD is an exempt asset and has no income assessment. Therefore, by paying a RAD the client may increase or maintain social security entitlements. For an understanding of the broad considerations for Aged Care and paying a RAD, please refer to our article **Guide to Aged Care fees and rules**.

11. Rollback pension to super to qualify for CSHC

Super benefits held in accumulation phase (regardless of age) are not assessable for the purposes of CSHC income test. Eligibility for the CSHC is subject to an adjusted taxable income test and deemed amounts of account based pensions (unless the pension is grandfathered). Therefore, funds held in the super accumulation environment are exempt from assessment.

However, investment earnings in accumulation phase are taxed at up to 15%. Therefore, consideration should be given to whether the financial benefits derived by the card outweigh the portion of funds that are subject to the 15% tax in super. Although it can be difficult to quantify the benefit derived from holding the CSHC in dollar terms, the additional tax should be considered.

For additional information refer to our article **Commonwealth Seniors Health Card.**

12. Purchasing lifetime income stream

Investing in pooled lifetime income streams may create favourable social security outcomes. Pooled lifetime income streams include deferred income streams, lifetime annuities and lifetime superannuation pensions. Lifetime income streams can be purchased with ordinary or superannuation money.

Prior to purchasing a lifetime income stream, you should identify if the client's entitlement is determined under the income or assets test. This enables you to determine whether this type of lifetime income stream result in a better outcome for the client's social security entitlement.

For a more in depth understanding of the changes and specific requirements, please refer to our article **Pooled lifetime income stream changes.**

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8 SSA Part 3.12 Division 2

Example 7: Purchasing a lifetime annuity vs commencing an account based pension

David, single and aged 68 and recently retired. He owns his own home and has $450,000 in super. His only other assets are personal assets with a value of $20,000 and a small bank balance, he has no additional income. His Age Pension entitlement is determined under the assets test prior to any change.

If David was to commence an account based pension, the $450,000 continues to be an assessable asset and the deeming provisions continue to apply. If David was to purchase a lifetime annuity (which is immediately payable), 60% of the annual income drawn is assessed under the income test and 60% of the purchase price is included in the asset test. If he used $300,000 to purchase a lifetime annuity, the assessable value would be $180,000. The value of all his assets would be reduced by $120,000 and his Age Pension entitlement would be close to the point at which the income and asset tests give equivalent outcomes.

Advice tip

For clients impacted by the **assets test**:

- The 40% discount for lifetime income streams from an assets test perspective can potentially benefit clients whose assessable assets are slightly over the cut-out threshold.
- The rules from 1 July 2019 generally produce a more favourable entitlement for the first seven years compared to pre-1 July 2019 rules.

For clients impacted by the **income test**:

- The rules from 1 July 2019 60% of income received from the annuity is assessed.
- It’s important to calculate the amount of income that is assessed under the income test prior to recommending a lifetime income stream.