generation life

Improving government entitlements and benefits

Many retirees look for ways to make their money last longer or to improve their government entitlements and benefits. Eligibility for various Government related benefits, income and pension support payments and the level of residential aged care fees often involve an assets and income test, also commonly referred to as a 'means test'.

The ability to qualify for government benefit payments, such as the Age Pension for example, also provides ancillary benefits including reductions in local council rate fees, reduced vehicle registration costs, and access to cheaper medicines under the pharmaceutical benefits scheme. These benefits have the potential to represent significant savings to you over the years in retirement.

Assets test

Under the assets test, generally the net market value of your assets is used (i.e. the amount the assets can be sold for less any debts that are secured against the assets).

All assets owned by you and your spouse are assessed, and includes most investment assets (such as shares, managed funds, superannuation and investment properties), plus personal assets such as motor vehicles and home contents.

Interests you have in trusts or private companies may also be included. Importantly, the assets test does however exclude your principal place of residence and some other assets are also excluded.

Income test

All income attributable to both you and your spouse/partner is considered. How income is determined will depend on the nature of the income or your investments.

Under the 'deemed' income test, prescribed deeming rates are applied to the value of a financial asset to determine its 'deemed' income, instead of its 'actual' income. This applies to most financial investments such as cash, shares and post 1 January 2015 account-based superannuation pensions.

Pension payments

Payments made either by Centrelink or the Department of Veterans' Affairs are generally subject to income and assets testing. For example, you may be entitled to a part pension if your assets and income (including deemed income on financial assets) are below the upper thresholds for both tests, as well as meeting other eligibility requirements.

If your assets and income are below the lower thresholds for both tests you may be entitled to a full pension. Both the income and assets test are used to determine the amount of payment you can receive. Your actual entitlement will be the lower of the calculated amounts under both tests.

Aged care & home care

The Australian government subsidises aged care homes and home care packages to provide affordable and accessible care.

The amount of government assistance is based on an assessment of your ongoing care needs. For residential aged care an assessment of your capacity to pay is undertaken based on your assets and income, while for home care, only your income is assessed.

Improving pension entitlements

Working with your financial adviser to help qualify or part qualify for government entitlements or benefits is an important step in securing your financial future. There are several strategies and solutions that may help you achieve your financial goals and help you qualify for a part pension or increasing the current level you receive.

When considering any potential strategies or solutions it is important to consider whether your savings can support any shortfall in your retirement income needs. Your personal circumstances may also change and increase your need or reliance on your future savings.

With that in mind, there are a number of financial solutions to help you achieve your financial goals and also boost your Age Pension or other government entitlements.

Funeral bond

If you are looking to set aside funds for funeral costs now, then a funeral bond can be used to reduce the level of assets and income assessable. You can currently invest up to $15,750[1] and this amount will be exempt from the assets and income tests. The total exempt amount you can invest is indexed annually each 1 July.

Members of a couple can each have their own funeral bond up to $15,750 to maximise the value of the exemption.

Alternatively, if a funeral bond is assigned to a funeral director as part of a prepaid, non-refundable funeral arrangement, then there is no limit to the amount that will qualify as exempt from the assets and income tests.

1. Based on exemption amount at 1 July 2025.

Meet Jill...

Jill is 68 years old and a single homeowner. Jill recognises the need to plan for her funeral and has set aside funds for the cost of her funeral. Jill currently receives an Age Pension equivalent to $28,423 p.a. compared to entitlement of $29,652. She also has financial assets valued at $320,000 which will count for assets test purposes and will have deemed income for income test purposes and $30,000 of personal assets which count under the assets test but do not count under the income test.

To save for her funeral costs and at the same time improve her pension entitlements Jill establishes a funeral bond and invests $15,750 (the current maximum contribution amount to qualify as an exempt asset for assets and income test purposes).

By investing in a funeral bond, Jill has been able to reduce the value of her financial assets by $15,750. This has resulted in an improvement in her annual pension rate by $1,229 p.a. to $29,652 p.a. Investing in a funeral bond also means that there will be no personal tax assessable amounts for her to worry about while the investment is maintained and no additional tax paperwork for her to manage.

	Increase in Age Pension p.a.
Purchase a $15,750 funeral bond	$1,229

Qualifying Lifetime income streams

The level of payments each year can be a fixed amount or variable amounts, linked to changes in inflation or investment returns. This latter type of lifetime income stream is known as an investment-linked lifetime income stream, where the annual payment will fluctuate in line with investment returns, which, over the longer term, are expected to be greater than inflation.

Lifetime income streams are designed to provide you with a regular income payment that is guaranteed for life. These can be lifetime pensions or lifetime annuities and you can generally use either your superannuation or non-superannuation assets to start the investment.

If a lifetime income stream meets certain requirements, it qualifies for concessional social security treatment and could increase your Age Pension entitlements, depending on your personal circumstances.[2]

Under the assets test, only 60% of the purchase price of a qualifying lifetime income stream counts as an asset for social security purposes up until age 84 (or for a minimum of five years). After this, only 30% of the purchase price is counted as an asset.

Under the income test, only 60% of any payment you receive from a qualifying lifetime income stream is assessable as income for social security purposes.

2. Requirements include limits on the amount that can be paid either as a voluntary withdrawal or upon death.

Meet Betty...

Betty is 72 years old and a single homeowner with $600,000 in her account-based pension and $5,000 of personal assets comprising home contents and her car.

Betty currently receives an Age Pension equivalent to $8,533 p.a. compared to a full pension entitlement of $30,646. To provide for her retirement income, Betty rolls over $200,000 of her account-based pension into a qualifying lifetime investment-linked annuity. Her lifetime investment-linked annuity provides her a payment in the first year of $15,443.

By investing in a qualifying lifetime annuity, Betty has been able to reduce the value of her assessable assets by $80,000 and 60% of her regular payment is counted as income. This has resulted in an improvement in her Age Pension of $6,240 p.a. to $14,773 p.a.

If Betty had rolled over $400,000 of her account-based pension into a qualifying lifetime investment-linked annuity her first year's payment would have been $30,886 and her Age Pension payment would have improved by $12,480 p.a. to $21,013 p.a.

	Increase in Age Pension p.a.
Purchase a $200,000 investment linked lifetime annuity	$6,240
Purchase a $400,000 investment linked lifetime annuity	$12,480

Investment bond held within a trust

Using a trust to hold an investment bond (specifically through a trust classified as a designated private trust) can provide you with certain financial and estate planning benefits. These benefits may include the potential to improve entitlements and benefits associated with the income test component of the Age Pension and residential aged care means test, and the home care service fee income test.

The designated private trust can be established by your financial adviser, which may involve using an off the shelf solution provided by the investment bond provider.

Meet Richard...

Richard is 80 years old and is a single non-homeowner with financial assets valued at $500,000 and personal assets of $10,000. Richard currently receives an Age Pension equivalent to $27,247 p.a. compared to the full pension entitlement of $30,646 p.a.

Richard restructures his financial assets and invests $300,000 into an investment bond held through a trust set up by his financial adviser. The balance of Richard's investments remain under their existing arrangements.

By investing through the trust arrangement, Richard has been able to reduce the value of his financial assets subject to the deemed income test (although the assets test would still apply). This has resulted in an improvement in his Age Pension by $3,399 p.a. to $30,646 p.a.

	Increase in Age Pension p.a.
Investment bond within a trust structure purchase	$3,399

Reducing aged care & home care costs

Using a trust to hold an investment bond (specifically through a trust classified as a designated private trust) can provide you with certain financial and estate planning benefits. These benefits may include the potential to improve entitlements and benefits associated with the income test component of the Age Pension and residential aged care means test, and the home care service fee income test.

Meet Vivienne and Alan...

Couple Vivienne 73 and Alan 82 are homeowners, however, Alan has recently moved into residential aged care accommodation funded by a $500,000 residential aged care deposit.

Vivienne has $700,000 in her account-based pension. The couple have $100,000 in bank deposits and personal assets of $5,000.

The couple are looking to reduce Alan's aged care accommodation fees, improve their pension entitlements and provide an income for life to assist with their day-to-day living expenses.

Alan's means-tested aged care fee is currently $6,030 p.a. Based on their residential status and current assets and income the couple receive a combined illness separated Age Pension of $36,059 p.a.

Vivienne uses $31,500 of their bank deposits to fund the purchase of two $15,750 funeral bonds. By investing in the funeral bonds, Vivienne has been able to reduce the value of their financial assets by $31,500. This has resulted in an improvement in their annual illness separated pension rate by $2,457 p.a. to $38,516. Alan's means tested aged care fee will also reduce by $316 p.a.

To provide for her retirement income, Vivienne also rolls over $300,000 of her account-based pension into a qualifying lifetime investment-linked annuity. Her lifetime investment-linked annuity provides for a payment in her first year of $23,792.

By also investing in a qualifying lifetime annuity, Vivienne has been able to reduce the value of their financial assets by $120,000 and 60% of Vivienne's regular payment is counted as income. This has resulted in an improvement in their annual illness separated pension rate by a further $9,360 p.a. to $47,876. Alan's means tested aged care fee will reduce by a further $388.

	Increase in Age Pension p.a.	Aged care fee saving p.a.	Total benefit p.a.
Funeral bond purchase	$2,457	$316	$2,773
Lifetime investment linked annuity purchase	$9,360	$388	$9,748
Total benefit	**$11,817**	**$704**	**$12,521**

Reducing aged care & home care costs

Meet Adele and Anthony...

Couple Adele and Anthony are homeowners and access in-home care services. Adele's care type is Home Care Package level 1, while Anthony's package is Level 3.

The couple have $800,000 in bank deposits and Anthony receives a defined benefit pension of $44,000 p.a. The couple have combined home care income tested fees of $13,724 p.a.

Based on their residential status and current income and assets (including contents valued at $10,000), the couple receive a combined Age Pension of $19,204 p.a.

The couple are looking to reduce their in-home care fees and improve their pension entitlements.

The couple use their bank deposits to fund the purchase of an investment bond to be held within a designated private trust set up by their financial adviser. By investing in the investment bond through the trust arrangement, the couple has been able to save $8,630 p.a. in income tested fees plus an age pension uplift of $1,375. This represents an improvement in their position of $10,005.

If the couple instead used only $400,000 of their bank deposits to fund the purchase of an investment bond to be held within a designated private trust, the couple would be able to save $4,180 p.a. in income tested fees plus an age pension uplift of $1,375. This represents an improvement in their position of $5,555.

	In-home care fee saving plus age pension uplift p.a.
Investment bond purchase held through designated private trust - $800,000	$10,005
Investment bond purchase held through designated private trust - $400,000	$5,555

Age care calculations are subject to rounding.

How investment bonds and lifetime annuities can help with other government benefits

There are a number of government payments, tax offsets and levies that use Adjusted Taxable Income or a variation of it, as criteria to determine eligibility and the level of benefit available or amount of levy incurred.

Adjusted Taxable Income is based on your level of taxable income, i.e. assessable income less allowable deductions with a number of adjustments applied. The Adjusted Taxable Income calculation may vary depending on the government benefit it relates to.

The annual investment earnings of an investment bond are excluded from Adjusted Taxable Income calculations, provided no withdrawals are made within the first 10 years of commencing the investment. If a withdrawal is made within those 10 years, then the tax assessable component of the withdrawal would be included as part of the Adjusted Taxable Income.

As withdrawals from a funeral bond only occur on the passing of the life insured, there are no assessable income amounts, to be included as Adjusted Taxable Income.

The income from a qualifying investment-linked lifetime annuity commenced with superannuation money is excluded from the Adjusted Taxable Income where the recipient of the annuity is aged 60 or over. In all other cases, only a portion of the income is included in the Adjusted Taxable Income calculation.

Commonwealth Seniors Health Card

The Commonwealth Seniors Health Card provides low-income retirees who do not qualify for the Age Pension access to similar Commonwealth concessions as the holders of the Pensioner Concession Card.

Some of the benefits that the Commonwealth Seniors Health Card can provide include:

- Cheaper prescription medicine and other benefits under the Pharmaceutical Benefits Scheme
- Larger refunds on medical costs under the Medicare Safety Net
- Free or reduced rates on health care costs which can include ambulance, dental care, hearing and eye checkups
- Discounts on water and council rates (which will vary by state)
- Discounts on electricity and gas bills - Seniors energy rebates can apply depending on your state to help reduce the cost of electricity and gas
- Discounts for other services such as public transport and education are often available.

The level of concessions and discounts will vary depending on your state.

Other government benefits

Lowering your Adjusted Taxable Income may also be able to benefit you with the following government benefits and levies:

- Family assistance payments
- Child support
- Carer Allowance and Carer Allowance Health Care Card
- Low Income Supplement and Low Income Family Supplement
- Medicare Levy Surcharge thresholds
- Private Health Insurance rebate
- Higher Education Loan Program (HELP) repayments
- Dependant (invalid and carer) tax offset.

Generation Life offers a range of investment solutions that can provide concessional treatment to help you maximise your Government benefits and entitlements.

LifeIncome

LifeIncome is an investment-linked lifetime annuity that provides a regular income that is guaranteed for life and offers the potential to access some or more of the Age Pension and ancillary benefits. With options to bring forward future income earlier, when you might need it the most, and the ability to provide a reversionary income on your passing, LifeIncome can provide you with a flexible income stream for life.

FuneralBond

FuneralBond is a simple and tax-effective way to help meet your future funeral costs with the added benefit of being income and assets test exempt up to certain limits to help improve pension benefits. You can also arrange to transfer ownership to a funeral director as part of a pre-paid funeral arrangement.

LifeBuilder

LifeBuilder provides a tax-effective way to save for the future as well as providing the flexibility to pass on wealth to the next generation with confidence. LifeBuilder also comes with a trust ownership option at no extra cost, that can help you access some or more Age Pension and ancillary benefits, if you are looking to manage deemed income levels.

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Outthinking today.

Generation Life – a trusted partner

Generation Life has been at the forefront of providing Australians with innovative tax-effective investment and retirement solutions since 2004. $4.4 billion has been invested with us to date.

Generation Life is a life insurance company registered under the Life Insurance Act 1995. Our parent company Generation Development Group (ASX:GDG) is listed on the Australian Securities Exchange.

Need more information

For more information about how Generation Life's investment solutions can help with improving your government benefits, please speak to your financial adviser. Alternatively, please visit us at genlife.com.au or call us on 1800 806 362.