



## Fact Sheet - Social Security & Centrelink Benefits

This document provides some additional information to help you understand financial planning concepts in relation to **investment concepts**.

For more information, please contact the DPM Private Wealth team on (03) 9621 7000 or email [info@dpmfs.com.au](mailto:info@dpmfs.com.au).

### What is Social Security?

Social security is income assistance by the Australian Government that provides a 'safety net' for people who have retired or cannot work and are unable to support themselves.

For any of the current rates with social security payment and allowances please visit the Centrelink Webpage ([www.humanservices.gov.au](http://www.humanservices.gov.au)). Please note these payment are reviewed and updated on a 6 months basis so will need to be checked frequently.

### New Types of Social Security Benefits

#### Clean Energy Household Assistance Package

To compensate household for the inflationary effects of the introduction of the carbon tax, a Household Assistance Package consisting of an initial payment, tax cuts and ongoing payments was introduced in May 2012. The different types of benefits under these packages include:

##### *Clean Energy Supplement*

This is the ongoing support provided by the government which is payable for the following:

- Family Tax Benefit Part A
- Family Tax Benefit Part B
- Single pensioners
- Pensioner Couples

##### *Seniors Supplement*

Those who hold a Commonwealth Seniors Health Card are able to receive assistance through a Seniors Supplement for singles and each eligible member of a couple.

Other forms of additional support under the Clean Energy Household Assistance Package includes:

- Low income supplements
- Essential medical equipment payment
- Support for aged care facilities
- Support for self-funded retirees

### Centrelink Benefits

Centrelink administers pensions, allowances and other benefits to eligible persons. Its focus is to provide income security for retired, sick or unemployed people and assistance for families with children.

Pensions and allowances are subject to income and assets tests and will only be payable if a person meets the qualification criteria, including certain residential requirements.

#### *Residential qualification for Pensions*

A person meets the residential qualifications by being:

- In Australia at the time of applying for a payment
- An Australia resident for more than 10 years, with at least 5 years of continuous residence.

### Age Pension

To qualify for the age pension, a person must satisfy the residential qualifications and have reached Age pension age. The Age pension is a taxable form of income and is subject to an income and assets test.

The current qualifying age for a man is 65 years old, and 60 years old for a woman which is being increased to age 67 for both by June 2023. The pension age for a woman is also being progressively increased from 60 years to 67 years.

The qualifying age will begin to increase from 65 to 67 from July 2017, with the age increasing by 6 months every 2 years.

Pensioners have the option of receiving the pension on a quarterly or fortnightly basis.



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### **Work Bonus**

This applies to pensioners of Age Pension age to encourage paid employment. From 1 July 2011, the work bonus discounts employment income per fortnight.

The work bonus applies to income from employment only and doesn't include self employed income, or leave payments from terminated employment.

Any unused work bonus amounts accrue up to a certain amount in an income concession bank which can then be used to reduce employment income that exceeds the current amount per fortnight.

### **Carer Payment**

A person will qualify for Carer Payment if:

- The carer personally provides constant care to a disabled child or adult in the disabled person's private residence.
- The disabled person is receiving a social security payment, a Service Pension or income support payments or meets the care receiver income and assets tests, and
- The carer is living in Australia and is an Australian citizen, or a permanent resident.

The carer payment is generally paid when 6 months or more of care is required.

If the person being cared for is over 16 years of age, they must:

- Have a severe disability or medical condition, or
- Have moderate care needs and have a dependent child who is under six years of age or between six and 16 years of age and attracts payment of Carer Allowance

It is not necessary for the carer to live with the disabled person.

The person being cared for needs to receive a pension or benefit, or:

- Be ineligible only because they have not lived in Australia for long enough
- Meet special income and assets test limits.

The carer cannot claim the Carer Payment in addition to another social security pension or benefit. However, Carer Allowance (see below) may be payable.

The Carer Payment is paid at the pension rate and subject to the same income and assets tests. If the carer and the person being cared for are both under Age Pension age then it is a non taxable benefit.

### **Carers Supplement**

This is an ongoing, non-taxable payment which provides:

- Payment for Carer Allowance recipients for each person being cared for, and
- Payment to Carer Payment recipients

### **Carer Allowance**

This allowance is paid to a person who provides daily care for either an adult or a child who is frail, chronically ill or disabled, and is being nursed at home.

To be eligible they need to provide 20 hours per week of personal care and are not required to reside in the same home as the person they provide care for.

The Carer Allowance is paid per fortnight, and is not taxable or income and assets tested.

The Carer Allowance can be paid in addition to the Carer Payment, Age Pension or Parenting Payment.

### **Disability Support Pension (DSP)**

To qualify a person must:

- Be assessed as not being able to work or be retrained for work of at least 15 hours per week within two years because of illness, injury or disability, or
- Be permanently blind, or
- Be participating in the Supported Wage System (SWS)
- Be over 16 years of age and under pension age, and
- Satisfy the residency requirements.



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Those who aren't severely impaired must participate in a program of support which is designed to assist in preparation for finding and maintaining employment.

### **DSP Payment**

From 1 July 2012, DSP recipients continue to receive support if they obtain paid work of at least 15 and less than 30 hours per week

The DSP is paid at the pension rate and subject to the same income and assets tests.

## **Commonwealth Seniors Health Card**

This card provides concessional rates on the pharmaceutical benefits as well as access to a Seniors Supplement. Payments are made quarterly.

To qualify a person must:

- Be of pension age
- Not be receiving an Age or DVA Pension
- Be in Australia and be an Australian Resident
- Satisfy the Seniors Health Card income test:

## **Pensioner Concession Card**

This card is issued to people who are in receipt of:

- Age Pension
- Disability Support Pension
- Carer Payment
- And others.

The main benefits of this card include:

- Access to reduced cost pharmaceuticals under the Pharmaceuticals Benefits Scheme
- Concessions from the Australian Government including bulk billing and more refunds for medical expenses through the Medicare Safety Net.
- Reductions on property, water and energy rates/bills.
- Reduced fares on public transport, and even free rail journeys
- Reduction on motor vehicle registration

## **Means Tests**

Social security pension, allowances and benefits are subject to means tests to ensure that benefits are only paid to people who are in need of them.

The means tests for pensions are subject to an income and assets test with the test that results in the lower rate of payment is the one applies.

Allowances also subject to a means test but don't have a threshold level. Where the amount payable reduces is just has a cut off point where no allowance is payable.

## **Assets Test**

The rate of pension or allowance is reduced where the recipient holds assets over a specified limit.

Assets that are taken into consideration under the assets test include Property inside and outside of Australia, money, goods, real estate, personal property and debts owing to the person.

### **Exempt Assets**

However there are assets which are exempt under the assets test such as:

- The principal home and its surrounding land up to 2 hectares and any permanent fixtures (such as carpets, dishwashers, garages and swimming pools) attached to it.
- Superannuation funds, approved deposit fund (ADF), deferred annuity (DA) or retirement savings account (RSA) (exemption ceases when client reaches Age Pension age).
- Life interest not created by the person or the person's partner
- Contingent, remainder or reversionary interest
- Interest in an estate until it is received or able to be received.

### **Valuation of Assets**

Under the assets test the value of an asset is the net market value that the asset could be sold for minus any debts secured against the asset. Retirement living and aged care facilities can be treated beneficially under the assets test and should be considered in determining your Centrelink benefits.



## Income Test

A person is permitted to receive a certain amount of income before the person's entitlement to a pension or allowance is affected.

### Exempt Income

Under the Income Test income is defined broadly and includes all types of income except for items that are specifically exempt such as:

- Returns on investments in superannuation or roll-over of funds until the person reaches Age Pension age.
- Home equity conversion loans
- Emergency relief
- Payments in respect of a dependent child
- Payment of a n allowance by an employer for expenses
- Rent subsidy
- Medical benefits
- Payments from family members

## Assessment of Investment under the Means Test

### Deeming provisions concerning financial assets

Under the income test, financial assets such as bank accounts, managed investment and shares are lumped together and deemed to earn a certain rate of income, regardless of the income actually earned.

Financial assets don't include:

- The home or its contents
- Entry contribution for aged care
- Cars, boats and caravans
- Standard life insurance policies
- Holiday houses or other real estate (not including property investments)
- Income stream products, such as account-based pensions and annuities.

### Treatment of Superannuation

Superannuation assets are exempt from social security income and assets tests until age pension age. One Age Pension age is reached they are counted as financial assets and subject to deeming.

### Treatment of Private Trusts and Companies

A private trust or company recognised as a 'designated' private trust or company, is attributed to the person(s) who either control or have contributed the assets.

Attributed assets are addressed as follows:

- Under the assets test, the net asset value of the attributed assets is assessable
- Under the income test, the gross value of the attributed income of the trust is assessable.

### Treatment of Income Streams

Income streams are assessed under the following 3 categories:

1. Assets test exempt income stream – are commutable in limited circumstances and have nil residual value. Under the income test, the annual payment is reduced by a deductible amount.
2. Assets Tested income stream (long-term) – does not have the characteristics to be exempt from the asset test and has a term of over 5 years, eg account based pensions. Under the income test, the annual payment is reduced by a deductible amount.
3. Assets Tested income stream (short-term) - does not have the characteristics to be exempt from the asset test and has a term of less than 5 years, eg short term annuities. Under the income test, they will be treated as financial investments and will accordingly be subject to the deeming provisions.

### Treatment of Property Investments

Property investments are not classified as financial investments and as such are not subject to deeming for income test purposes.

Income from rental, leasing or letting of a property is assessed and any expenses or borrowing costs are subtracted from the assessed income. If exact expenses can't be obtained, then Centrelink will allow a minimum of one-third of the rental as expenses.



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### ***Treatment of Reverse Mortgages***

For Centrelink purposes, reverse mortgages are known as 'home equity conversion loans'. They provide retirees with access to the equity in their homes, with the loan and interest not repayable until the homeowner moves out of the home or dies.

How this is assessed will depend on whether the client takes the proceeds as regular payments or a lump sum.

- If the loan is taken as Regular Repayments and the loan is spent straightaway on living expenses, the repayments are not assessable under Centrelink income or assets test.
- If the loan is taken as a Lump Sum, the first \$40,000 is exempt from the assets test for 90 days with the excess immediately accessible. Under the income test, the unspent loan proceeds are subject to deeming immediately.

### ***Gifting Rules***

A single person or couple can dispose of assets up to \$10,000 per financial year, subject to a maximum of \$30,000 over a 5 year rolling period.

Where assets exceed \$10,000 the excess amount is included in the person's assessable assets for the purpose of the assets test for 5 years from the date of disposal. In addition, the excess amount is subject to deeming and included in the income test for 5 years.

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