Social Security – Strategies to help improve Centrelink/Department of Veterans' Affairs (DVA) entitlements

Your entitlement from Centrelink/Department of Veterans' Affairs (DVA) is subject to income and asset testing. Reducing your assessable income and assets may therefore help to improve your entitlement.

How it works

Centrelink/DVA apply two tests to determine your entitlement – an assets test and an income test. Both tests are applied to your situation and the test that results in the lower rate of payment is the one that is applied.

Some assets are exempt from these tests and others may receive more favourable assessment. Following are some strategies that may help to reduce your level of income and assets and therefore help to improve your entitlement.

Home improvements

The value of your home is exempt from Centrelink/DVA income and asset testing, so spending money to improve your home may increase its value and may also help improve your entitlement. This is because the funds you spend on the improvements for your home are part of an exempt asset. This means assessable assets and income may be reduced by the amount spent.

However, it is important to remember that, although this may help you get an increase in your entitlement, spending money on renovations also reduces your savings. It is also possible that the increase in the market value of your home may be less than the amount that you spend on renovations. You should ensure you will continue to have sufficient money to meet your ongoing needs.

Funeral bonds

A funeral bond is an investment that is used solely to pay for your future funeral expenses. It can help provide you with peace of mind knowing your family members won't have the financial burden of paying for your funeral.

Funeral bonds are exempt from Centrelink/DVA income and asset testing but only if:

- You have not already pre-paid your funeral expenses (including purchase of a cemetery plot), and
- You do not invest more than the allowable limit in funeral bonds (threshold is indexed on 1 July each year).

The allowable limit applies per person, but if you are a couple and have one bond that is payable upon the death of the last person no more than the limit can be invested in this bond.

All earnings are retained in the funeral bond and taxed in the hands of the provider at the company tax rate. The balance of the bond cannot be accessed until your death.

Upon your death, if any or all of the bond proceeds is paid to your estate, a portion may be assessable income and taxed as part of the estate's income. The funeral bond issuer will provide this information at that time. If the amount is paid directly to a funeral director, no income is assessable to your estate.

Pre-paid funeral expenses

Pre-paid funeral expenses are when you enter into a contract for the provision of funeral services. It may help provide you with peace of mind knowing your family members won't have the financial burden of paying for your funeral.

The agreement with a funeral director allows you to determine aspects of your funeral and pay today's price. Depending on the funeral director, you may be able to pay a single upfront payment or via a series of instalments. The payments are generally non-refundable. However, an exemption is when you move outside the designated funeral service area. The amount paid may be invested at the discretion of the funeral director who generally also receives any earnings on those investments.

It is important to understand the terms of your specific contract particularly if there will be any change in the services nominated when these are provided in the future.

The amount paid for the pre-paid funeral expenses is exempt from Centrelink/DVA income and asset testing, regardless of the amount paid. There is no limit on the amount that can be pre-paid funeral expenses.

It is not possible to have both an exempt funeral bond and pre-paid funeral expenses.

Superannuation (accumulation phase)

Your superannuation account balance is exempt from Centrelink/DVA income and asset testing if it is in accumulation phase and you are under Age Pension age or Service Pension age for veterans. After this age, your superannuation balance is assessed as an asset and subject to deeming.

If you have a spouse who is under Age Pension age (or Service Pension age if they are a veteran), withdrawing some of your superannuation and making a contribution into your spouse's account will reduce your assessable assets and income which may help improve your Centrelink/DVA entitlement.

You should ensure your spouse is eligible to make personal contributions to superannuation and the contribution is within their contribution caps so tax penalties are not applied, and it is important to remember that you will not be able to access this money until your spouse meets a condition of release under superannuation law.

Annuities

An annuity is an investment that pays a series of regular guaranteed income payments for either a fixed period of time or for life. They may be purchased with superannuation funds or non-superannuation monies. The Centrelink/DVA assessment will depend on when and what type of annuity is purchased.

Lifetime annuities purchased pre-1 July 2019, term annuities and 100% capital return annuities with terms of six years and above, receive favourable treatment under the asset and income tests for Centrelink/DVA purposes and daily aged care fees.

NOTE: Lifetime annuities purchased from 1 July 2019 are treated differently under the Centrelink/DVA asset and income tests. See 'Pooled lifetime income streams' below for more information.

The income of a lifetime annuity purchased pre 1 July 2019 and term annuities is assessed by Centrelink/DVA's income test as follows:

- subject to deeming rates where the term is five years or less, or
- total income is reduced by a 'deductible amount' that reflects a return of the purchase price where the term is more than five years.

The amount you invest into an annuity is assessed under Centrelink/DVA's Assets test. If you choose to receive all of the capital at the end of the selected term, the assessed asset value does not change. If you choose to have some of the capital returned as part of the regular payments, the asset value is recalculated every 6 to 12 months and reduced by the amount of capital returned up to that time.

The assessment of the annuity may reduce the value of assessable assets or income for Centrelink/DVA purposes if the income stream has the appropriate characteristics to receive favourable treatment.

Please refer to the 'Annuities' Understanding Series for further information.

Pooled lifetime income streams

A pooled lifetime income stream, as the name suggests, is payable during your lifetime and if nominated, to a reversionary beneficiary. These income streams can be purchased with either superannuation or ordinary money and include deferred income streams and lifetime pooled pensions and annuities.

For Centrelink/DVA purposes, 60% of actual income payments are assessable under the income test. Under the assets test, the value assessed will reduce over time from 100% to 60% when the income stream becomes payable, and finally 30% when you reach a certain date or age.

If one of these income streams purchased since 1 July 2019 doesn't meet the pooled lifetime income stream definitions, the income test assessment is the same but the treatment for the asset test will differ.

Please refer to the 'Pooled lifetime income streams' Understanding Series for further information.

Other strategies

Valuing your assets the right way can be a simple way to help improve your entitlement.

Assets should be valued using market value, rather than insured value. This is particularly the case for assets such as cars and home contents which are often insured for a higher value to ensure they can be replaced if they are destroyed or damaged.

Gifting and purchasing an insurance bond within a private trust can also assist you to help improve your entitlement. Please refer to the 'Social Security: Gifting' and 'Social Security: Insurance Bond in a Private Trust' Understanding Series for further information.

Benefits

The benefits of adopting one or more of these strategies may include:

- Your Centrelink/DVA entitlement may increase to help top-up your income
- The means tested daily care fees you pay for aged care services may decrease.

Risks, consequences and other important things to consider

These include:

- You should ensure you have sufficient funds to support yourself before undertaking any strategy that reduces the value of your assets. This is particularly important if the strategy results in you no longer having access to that money, such as annuities, home improvements or funeral bonds.
- A lifetime annuity has nil residual capital value, meaning nothing is paid to your dependants or estate upon your death. The exceptions are if you have selected a reversionary annuitant or if a guaranteed income period has been selected and you pass away within this period. In this event,

your beneficiaries or estate will only receive what would have been paid to you during the guaranteed period. Depending on how long you live, there could be an overall loss of capital.

- Annuities are not investment linked so your capital will not grow and you cannot take advantage of favourable market movements.
- With annuities, you are locked into a specific rate of return for the rest of the term (or life). If interest rates rise, you are not able to take advantage of the higher potential return without incurring penalties.
- Once an annuity is established, the amount and frequency of the income payments cannot be altered.
- You are required to notify Centrelink/DVA within 14 days about any change to your situation that may affect your entitlement.
- The government may change legislation in the future, in which case it is important to review any strategies you adopt to determine whether they are still appropriate for your needs and circumstances.

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