Strategies to increase Centrelink/DVA entitlements

Your entitlement from Centrelink/Veterans' Affairs (DVA) is subject to income and asset testing. Reducing your assessable income and assets can therefore increase your entitlement.

Benefits

- Your Centrelink/DVA entitlement may increase to help top-up your retirement income
- The daily care fees you pay for aged care services may decrease
- Increased cashflow means your assets will last longer because you will have less need to draw on assets to meet expenditure needs.

How it works

Centrelink/DVA apply two tests to determine your entitlement – an asset 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 can help to reduce your level of income and assets.

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 also increase your entitlement.

However, it is important to remember that, although you may get an increase in your entitlement, spending money on renovations also reduces your savings. 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 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 ($13,000 for 2018/19).

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 are added tax-free. The balance of the bond cannot be accessed until your death.

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 (currently age 65) or Service Pension age for veterans (currently age 60). 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 spouse contribution into their account will reduce your assessable assets and income which may result in an increase in your Centrelink/DVA entitlement.

You should ensure the spouse contribution is within your spouse's 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.

Key Features of Annuities

Security - Your interest and capital payments are guaranteed, regardless of share market movements or interest rate fluctuations.

Flexible terms and payments - With annuities you can choose your investment term. Fixed term annuities are generally available for fixed terms of between one and 50 years. The investor selects the term most appropriate to them.

The term of a lifetime annuity is the rest of the investor's life - income payments continue until they die. It can be as short as one year, as long as 50 years or even for your lifetime. You can also select how often you get paid - monthly, quarterly, half-yearly or annually.

Lifetime income - In the case of a lifetime annuity, regular and guaranteed payments for the rest of your life.

Inflation protection - With some annuities, you can elect to index your payments so they keep pace with inflation or at a fixed indexation rate.

Tax effectiveness - When an annuity is bought with money rolled over within the superannuation system by a person aged 60 or over, the regular payments are tax free.

Access to your money - If you would like to cancel your annuity, in most cases you will receive a return of your investment but you may receive back less than you invested originally and less than you would have received had you held the annuity for its agreed term.

How are Annuities assessed?

Both lifetime annuities and 100% capital return annuities with terms of six years and above receive favourable treatment under the asset and income tests for Age/DVA pensions and daily aged care fees.

The income of an annuity is assessed by the 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 the 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 six to 12 months and reduced by the amount of capital returned up to that time.

Asset valuation

Valuing your assets the right way can be a simple way to increase 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 increase your entitlements. Please refer to the 'Gifting' and 'Insurance Bond in a Private Trust' flyers for further information.

Consequences

- 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 in to 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/Department of Veteran Affairs within 14 days about any change to your situation that may affect your entitlement.
- The government may change legislation in the future.

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