>> PIS Timely Tips

Professional Investment Services Group of Companies

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IN THIS ISSUE

Did You Know?

In the 2005/06 financial year, age pension benefits paid to Australians totalled $20.5bn.

Source: Year Book Australia 2007

All articles appearing in Timely Tips are written by Professional Investment Services unless otherwise acknowledged.

Important information regarding social security changes

Over the course of the past 12 months or so a number of significant changes have been announced that will affect the level of social security benefits that are payable to many Australians. These changes may affect the following groups of people:

- Current aged pensioners who are affected by the assets test;
- Those who are ineligible to receive government income support benefits because of the value of their assets;
- People hoping to become eligible for a government benefit in the future (such as those approaching retirement); and
- Older Australians expecting to enter an aged care facility (such as a hostel) in the future.

Means testing

The Government provides a range of income support benefits to Australians in certain circumstances. These include benefits such as the age pension, sickness benefits, unemployment benefits and the like.

When assessing a person's eligibility for government benefits, the applicant's assets and income are taken into account. An assets test and an income test are applied and the test that produces the lower benefit is the one applied. The tests are applied on an ongoing basis to determine a person's continued eligibility for benefits.

Where assets or income exceeds certain thresholds, the benefit is either lost or reduced according to a formula. For example, a person otherwise eligible for the age pension will have their entitlement assessed against their assets and income. If the thresholds for these tests are exceeds, their pension entitlement will reduce accordingly.

Assets test thresholds

The current assets test thresholds are based on whether a person is a single person, a couple, or a member of a couple separated by ill-health. Homeownership is also taken into account when determining the assets test threshold. The pension assets test thresholds applying as at 1st July 2007 appear in the following table:

Status	Assets free Threshold	Maximum aseests before pension reduces to $0
Homeowners		
Single	$166,750	$343,750
Couple - combined	$236,500	$531,000
Couple - seperated by ill-health	$236,500	$590,500
Non-homeowners		
Single	$287,750	$166,750
Couple - combined	$357,500	$652,000
Couple - seperated by ill-health	$357,500	$711,500

Once a person's assessable assets exceed their prescribed assets free threshold, their pension benefit is reduced by $3 per fortnight for every $1,000 of assets they have in excess of the asset free threshold.

From 20th September 2007, the pension reduction factor of $3 per $1,000 will be reduced to $1.50 per $1,000.

This means that potentially many more people who currently only receive a part pension or those who receive no pension, because of the level of assets they hold, will now receive either an increased part pension or, for those who currently receive no pension, they may now become entitled to a part pension. For those who currently receive a part pension, Centrelink will make the necessary adjustments however, people who are currently precluded from receiving any pension because of the level of assets they hold will now need to lodge an application for a pension.

From 20th September 2007 the estimated level of assets a person may hold before their pension entitlement will increase significantly.

Status	maximum assets before pension reduces to $0	
	Pre 20/9/07	**Post 20/9/07**
Homeowners		
Single	$343,750	$520.750
Couple - combined	$531,000	$825,500
Couple - seperated by ill health	$590,500	$944,500
Non-homeowners		
Single	$464,750	$641.750
Couple - combined	$652,000	$946,500
Couple - seperated by ill health	$711,500	$1,065,500

In summary, for those who are currently affected by the asset test and are receiving either a reduced pension or no pension at all, entitlement to an increased pension may apply from 20th September 2007.

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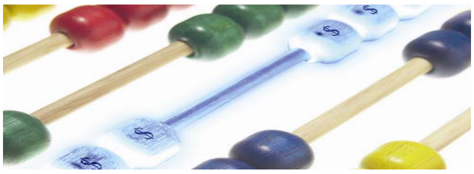
Assets test exempt income streams

Not all assets a person holds are assessed under the assets test. For example, a person's principal residence is excluded from assessment. Where a person invests in certain types of investment products that pay a regular income stream, the amount of capital placed in the investment may receive concessional treatment under the assets test. These investment products are referred to as "assets test exempt income streams" and include certain types of annuities issued by life insurance companies and certain pensions (such as "market linked income streams") provided by superannuation funds. The one distinguishing feature of investment products that receive favourable assets test treatment is that once the investment is made, the capital invested can't generally be accessed.

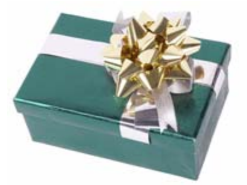
Where an investment is made in an assets test exempt income stream between 20th September 2004 and 20th September 2007, 50% of the investment is excluded from the assets test. Investments made prior to 20th September 2004 received 100% exemption from the assets test.



With effect from 20th September 2007, new investments in assets test exempt income stream products will no longer receive any assets test exemption. Investments made prior to that date will retain their 50% assets test exemption.

For those people with assets that exceed their relevant assets test threshold, the use of an assets test exempt income stream product may be useful in gaining access to a higher pension allowance than may otherwise be achieved. Even where a person may not qualify for a pension until a future date, purchasing assets test exempt income stream product before 20th September 2007 may be a worthwhile consideration as it will maintain its 50% assets test exemption into the future.

The impact of assets test exemption when combined with the reduction in the assets test reduction factor (from $3 per $1,000, to $1.50 per thousand) makes for some interesting mathematics when optimising the spread between an assets test exempt income stream and other assessable assets. Of course, the impact of the income test also needs to be taken into account when assessing strategies aimed at maximising government income to support. Because of the complexities involved, readers who may be seeking increase their entitlements should seek appropriate advice from their financial planner.



Gifting

One strategy often adopted by people looking to maximise their income support benefits is to simply give assets away to family members, friends, and the like. Whilst gifting is often a useful strategy, it can have an undesirable effect. Centrelink, the government agency responsible for administering income support benefits such as the age pension, applies limits to the amount of assets or cash that may be gifted over a period of time.

The current gifting limit is $10,000 per single person or couple in each financial year, subject to a maximum of $30,000 over any consecutive 5 year period.

Funeral Funds

Pre-paid funeral plans and investments known as funeral bonds can often qualify to be excluded from the assets test.

An amount of up to $5,000 per single or couple may be exempt from the assets test where that money has been invested in a pre-paid funeral plan or funeral bond. The limit has recently been increased to allow a couple to each have a pre-paid funeral plan or funeral of up to $5,000 each and retain assets test exemption. Where a single funeral bond is to be held in joint names of a couple, the $5,000 limit remains.

In Conclusion

Clearly, structuring your affairs to ensure you gain maximum access to government income support can be very complex and understanding the rules can make a world of difference. If you are currently receiving a reduced income support benefit such as the age pension, or if you are not receiving a benefit at all but think you may be eligible from September given the changes to assets testing, contact your financial planner and request a review of your current circumstances. It could be time well spent.

Source: Peter Kelly – Professional Investment Services

About our services:

The company has offices in all capital cities throughout Australia as well as an extensive regional network. Our highly skilled and trained consultants will assist you in determining the financial strategy that is right for you.

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