Understanding social security

Version 4.4

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How to read this document

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important you understand how these issues will impact you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SOA) which sets out the details of the advice and how it will meet your goals and objectives.

This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to **social security**.

It is very important you read this document to help you understand the benefits of the strategies recommended to you and the associated costs and risks.

Please contact your adviser if you do not understand anything, or need further information or clarification.

Social security

The Australian Government offers a range of social security services and payments to support those in need and assist people to become self-sufficient.

Benefits are provided through various means, such as pensions, allowances, concessions and aged care services.

Pensions and allowances

The following is a list of some common types of social security pensions and allowances:

- Age Pension
- Disability Support Pension
- Carer Payment
- Family Tax Benefit
- Newstart Allowance
- Carer Allowance

The following is a list of some common types of Department of Veteran Affairs (DVA) pensions and allowances:

- Disability Pension
- Service Pension
- War Widow Pension

To apply for Centrelink or DVA benefits, basic conditions of eligibility (such as age, health, employment status) and residential requirements must be met.

In some circumstances, an income and assets test is also applied to determine eligibility. In this case, the lower payment benefit resulting from the two tests will determine the actual benefit received.

Assets test

Different assets may be treated in different ways by Centrelink and DVA. Some assets may be fully or partially exempt. For example, any amounts held within an accumulation superannuation fund are excluded from assets and income tests until the owner reaches Age Pension age. This means those under Age Pension age may be able to increase the level of their benefits by contributing to super.

In some cases, assets you no longer have could even be counted if they were sold or given away for less than their market value.

How is the assets test applied?

A minimum and maximum assets test threshold is applied to most pension payments. For pensions, assessable assets below the lower threshold entitles you to the maximum payment under the assets test. The maximum payment is reduced progressively for assets exceeding the lower limit.

For allowances, no payment is payable under the assets test if your assets exceed the lower threshold limit.

Income test

Income may be treated in different ways by Centrelink and DVA depending on its source. Financial investments are deemed by Centrelink and DVA to earn a specified rate of income, whereas income from real estate, employment, and certain income streams are assessed differently.

Deeming provisions

Deeming provisions are in place to simplify income test assessments of returns from financial investments.

Deeming provisions were also put in place to encourage people to maximise income from other sources without penalising them by reducing their Centrelink or DVA entitlements.

Under current deeming rules, almost all financial investments are deemed to be receiving a certain level of return, regardless of the actual return received.

Deeming rates are reviewed from time to time to reflect rises and falls in market interest rates.

Financial assets include:

- bank, building society and credit union accounts
- term deposits and debentures
- friendly society bonds

- managed investments
- listed shares and securities
- shares in unlisted public companies
- certain income streams (see below)
- superannuation fund investments held by people *over* Age Pension age
- loans, including those to family trusts and companies, and
- gifts, if you have given money or other assets of greater than the allowable limit.

From 1 January 2015, the income assessed by social security from an account based pension will be determined under the deeming rules. As a result, the 'income' for social security purposes may be more or less than the actual income payments received.

Some people will not have their account based pensions assessed under the deeming provisions. This includes anyone:

- in receipt of an income support payment, such as Newstart, Disability Support Pension or Age Pension immediately prior to 1 January 2015, and;
- an account based pension that commenced prior to that day.

In this case, the account based pension commenced prior to 1 January 2015 will retain the income test assessment applied prior to 1 January 2015. That is, 'grandfathering rules' will apply.

There are circumstances under which you could lose the grandfathering treatment. This would occur in a situation where you lose eligibility to your income support payment for a period, or if a grandfathered pension is ceased and a new pension is commenced. This includes:

- a switch in products or providers
- adding funds to an existing account based pension, or
- consolidating a range of super and pension accounts.

It is important before you make any changes to a grandfathered pension, you seek advice from you financial adviser to understand any impact on your social security entitlements.

To understand the treatment of account based pensions prior to 1 January 2015, please contact your financial adviser.

How is the income test applied?

The deemed income is added to any income you have from other sources such as income from employment or rental income from property. Your total income is then used to work out how much pension, benefit or allowance can be paid to you.

A minimum and maximum income test threshold is applied to most pension and allowance payments. Assessable income below the lower threshold entitles you to the maximum payment under the income test. The maximum payment is reduced progressively for every dollar exceeding the lower limit for pensions.

Concession cards and other benefits

Some common types of social security concessional cards and other benefits include:

Health Care Card

The Health Care Card is issued to all allowance recipients and a low income health care card is available for people who have low incomes. This card provides access to cheaper medicines under the Pharmaceutical Benefits Scheme (PBS). Holders of this card may also receive discounts on public transport.

Pensioner Concession Card

The Pensioner Concession Card is issued to all pensioners or part pensioners and some other social security recipients who receive at least $1 of pension payment per fortnight. In addition to the benefits provided by the Health Care Card, the Pensioner Concession Card may allow access to other discounts such as reductions on motor vehicle registration and drivers' licences, council rates and several other state based discounts. The actual discounts available will depend on your local or state government.

Commonwealth Seniors Health Card

The Commonwealth Seniors Health Card provides access to cheaper medicines under the PBS and other discounts such as free ambulance transport in some states. To qualify for this card you must have reached Age pension or Service pension age and must not be entitled to or have chosen not to claim an entitlement to social security benefits. There is no assets test limit to get this card but there is an income test limit.

Rent Assistance

- Rent Assistance is provided to those that pay rent or similar payments to private landlords for accommodation. Rent assistance is paid as an addition to a pension, allowance, or Family Tax Benefit.

Aged care services

The Australian Government aims to ensure affordable, accessible and quality aged care is available to all older Australians when required.

Aged care facilities

Where it is no longer possible to stay at home due to ageing, illness or disability, the Australian Government funds places in aged care facilities offering quality care and services.

To be eligible for Government subsidised aged care facilities or services, an assessment must be undertaken by the Aged Care Assessment Team (ACAT).

Some common types of aged care services include:

- **residential aged care**

  Services provided in aged care facilities will differ depending on the individual person's needs. Some facilities provide assistance with meals, laundry and personal care. Other facilities will provide a higher level of care including nursing care, meals, laundry, cleaning and personal care.

- **extra services facilities**

  Some residential aged care facilities provide a higher level of accommodation and care services than the standard facilities. Examples of extra services are higher standard of food and higher quality of accommodation, likened to hotel type services. The range of extra services offered in an extra service facility varies between providers.

  An extra services fee is payable if entering an extra service facility. The amount must be specified on the contract a person signs before taking up residence. There are no government set limits on extra services fees.

- **home care**

  Whenever possible, home care assists people to remain at home despite the effects of ageing. There are a number of programs available to assist older Australians who would qualify for home care. There are a range of services including:

  - Personal care such as helping with day to day living activities (eg showering or bathing, mobility)
  - Support services such as washing and ironing, house cleaning and transport for shopping or doctor appointments
  - Clinical care such as nursing or other health services (eg physiotherapy).

  These services aim to meet basic needs of older Australians to maintain their independence at home and in the community.