Assets tests and the aged pension: do new rules affect you?

If you need to live in residential aged care it's likely you will need to pay aged care fees to cover the costs of your care and accommodation, which will be based on your assets and income. Your social security pension entitlements are generally included when calculating your income.

There will be changes to the way the aged pension is calculated from 1 January 2017 and these changes may affect your ongoing aged care fees. It's important to understand how these changes may affect you.

Changes to the aged pension

Under the assets test, you may hold assets to a certain value before your pension reduces. If the value of your assets is more than your relevant threshold, your pension entitlement will be reduced by $1.50 for every $1,000 of excessive assets.

The asset limits will increase when the changes are introduced, which will allow more pensioners to receive the full pension. But if the value of your assets exceeds your relevant limit, your pension entitlement will reduce by $3.00 for every $1,000 of excessive assets, instead of reducing by $1.50 for every $1,000 of excessive assets. Pensioners whose assets are higher than their relevant limit may lose or receive a lower pension.

Residents already in aged care

If you live in an aged care facility and your pension entitlements reduce, your aged care fees may also reduce. In some cases, the aged care fees won't reduce despite the fact you will be receiving a reduced pension. In these situations, you will need to consider how you will meet your costs with less cash flow. If your aged pension entitlements increase you will have additional cash flow but your aged care fees may also increase. You may need to budget for this.

The examples below illustrate how the changes may impact you depending on your level of assets.

Example 1

Harry is 78, owns his own home and has $537,000 in a bank account and allocated pension. These are deemed to earn a certain rate by Centrelink. He currently receives $376.65* in age pension per fortnight.

Harry entered aged care on 1 June 2016 and paid a refundable accommodation payment of $350,000. Based on his level of assets and income, his ongoing aged care fees are $90.78* per day ($1,271 per fortnight).

From 1 January 2017, if he still has $537,000 in assets, his estimated age pension will reduce to $49.00^ per fortnight – a drop of $327.65 per fortnight. His ongoing aged care fees will remain at $90.78*per day. As his aged care fees will stay the same he will need to consider how he will fund this with a reduced age pension.

Example 2

Jenny is 82 and owns her own home. She has $240,000 in an account-based pension which is deemed and $40,000 in a bank account. She currently receives $762.15*in aged pension per fortnight.

Jenny entered aged care on 1 June 2016 and paid a refundable accommodation payment of $350,000. Based on her level of assets and income, her ongoing aged care fees are $78.38* per day ($1,097.32 per fortnight).

From 1 January 2017, if she still has $280,000 in assets, her estimated age pension will be $783.90^ per fortnight. This will be an increases of $21.75^ per fortnight. Her aged care fees are only estimated to increase by $10.78* per fortnight.

**Based on rates and thresholds until 30 June 2016. These rates assume Harry keeps his home and leaves it vacant.*
^Based on rates until 30 June 2016 and expected thresholds from 1 January 2017.

Future funding considerations

There are ways to increase pension entitlements and reduce aged care fees. These include spending money on holidays and home renovations, giving away assets up to allowed limits, or investing in assets that are exempt from the social security means tests. Some people might also consider drawing more money from investments, taking more income from superannuation pensions, commencing a long-term annuity or renting their home.

But it’s important to remember that everyone’s situation is different. Strategies that work for some may not work for others. Understanding how Centrelink assesses your income and assets and considering what strategy is best for you can be confusing. Which is why discussing your situation with a financial adviser can help you make the right choices. If you’re concerned about how these changes might affect you, contact us today.