Millionaires eligible for the pension under new rules

Tim Blue

About 100,000 will receive the pension for the first time, Canberra claims

MILLIONAIRES are picking up the age pension in ever increasing numbers, thanks to the latest generosity from the federal Government and smart use of financial planning and new products.

From late last week, rule changes, designed to take the pressure off retirees previously seen as too wealthy for a pension, have opened doors to the holy grail of keeping the family assets yet gaining a pension and its perks — cheap pharmaceuticals and discounted travel and entertainment.

Ten per cent of Australia's three million retirees — 300,000 people — who had previously been regarded as too wealthy, now qualify for a government age pension.

About 100,000 are entirely new to the pension. Minister for Families, Community Services and Indigenous Affairs, Mal Brough, described this as a major reform.

It is the result of lifting the limit on how much wealth people can have before losing their eligibility for a pension under the social security assets test.

For a retiree couple with their own home, the limit is up 60 per cent, from $531,000 to just under $840,000.

For a single home owner, the pension entitlement assets threshold has increased on a similar scale to $529,250, or close to the old threshold for a couple contemplating retirement. Financial experts said yesterday that it was not difficult to pick up the pension by hiding assets — though most questioned the wisdom of doing so.

"Since family homes are not subject to capital gains tax, upgrading to a multi-million-dollar home is one way to hide the assets," said Adelaide-based financial strategist Theo Marinis.

"Then you take out a reverse mortgage that pays out in instalments as required from the capital value. The money doesn't stay in your bank account long enough to be counted by Centrelink at all."

Helena Gibson, technical services head at Perpetual, said that having a younger wife or husband can be useful.

"A couple can load the younger spouse's super (where they are under age-pension age) as it won't count as an asset under the assets test.

"It means, too, that you are less likely to bust the income side of the pension test."

Family trusts remain a viable option, though more difficult to use since changes made in 1999.

Assets lodged in a trust are not counted towards the assets test, yet Centrelink recipients must be well-distanced from the assets to ensure they are not picked up under the so-called "control" provisions.

"It means, in short, that someone placing assets in a trust must be entirely content to do so," said Louise Biti, head of technical services at financial services group Asteron. "Children may be the ultimate beneficiary, but consider what might happen if you should need the money back at age 75."

Another option is to over-invest in a unit in an aged hostel.

Many hostels require a bond of $200,000, but it is possible to lodge a deposit of perhaps twice as much, which is later redeemed by the family.

"The industry suspects that the federal Government is aware of this practice and may soon act to close the loophole," Perpetual's Ms Gibson said.

Asset-loaded retirees could of course give the money away, though they must do so at a rate of no more than $10,000 a year or $30,000 over five years, if the money is not to be counted under the assets test.