Upsizing your home to access the age pension is a flawed strategy

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Columnist
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Q: My recently retired 69-year-old partner owns a mortgage-free house worth $1 million in which we both live. I'm 60 and own a $480,000 mortgage-free unit which has been rented out for the last eight years. He has about $1 million in super and savings and I have about $250,000. Is it possible for him to sell his house and use the proceeds – plus $500,000-$600,000 of his super – to buy our next home to set things up so he qualifies for a part age pension? I would keep my unit, as the rent and a small part-time job are my sources of income, and I wouldn't be able to help pay for the new home. Rae

A: For anyone in a relationship that is based on maintaining separate finances – such as you seem to have with your partner – life can be straightforward before retirement.

He can be the owner of the house you jointly live in and then sell it and buy another by adding some of his super, while you can own your unit and treat the rent as your income, no doubt declaring this in your tax return.

The same goes with your respective super and savings accounts which can each be kept separate.

Unfortunately, maintaining separate finances after retirement is not possible for anyone wishing to apply for a government benefit like the age pension.

When applying for Centrelink benefits, if you live as a couple you will be assessed as a couple, says financial adviser Brenda Will, an aged care specialist with Perth-based On-Track Financial Solutions. This applies to any couple in a relationship – even those who choose to keep their finances separate.

This means that all your separate assets and incomes will be considered under the rules for couples who are homeowners, even if it is just your partner who is applying for a part pension where the most he can get is half the amount a couple can receive.

For the record, couples get less age pension individually and so do homeowners under the Centrelink asset test rules. As far as Centrelink is concerned, you are a homeowning couple because you share a house, even though you describe it as his home.

Setting out the rules

To apply for the government age pension, you need to be 67 and an Australian resident for 10 years.

Between you, you must have less than $1,003,000 in Centrelink assessable assets and receive less than $3,666.80 per fortnight in Centrelink assessable income. These are known as the Centrelink means tests.

One of the important rules that your question highlights, says Will, is that a family home is an exempt asset, so the proposed strategy of your partner investing more funds in the home you jointly live in from his super and savings may result in greater age pension benefits.

But whether it gets you a significantly improved age pension is questioned by Will and Adelaide financial strategist Theo Marinis of Marinis Financial Group.

While the proposed new $1.5 million home would be exempt from Centrelink assessment as your principal residence, Marinis doubts if your partner will qualify for any age pension or, if so, by an amount that justifies the proposed changes.

Based on retaining the investment property you own valued at $480,000 and $500,000 in your partner’s super (or account-based pension), that represents $980,000 of Centrelink assessable assets, says Marinis. That’s before allowing for cash in the bank, motor vehicles and personal effects (like furniture) that must be counted in the Centrelink assets test.

From your question about your property being your asset and your employment income being yours, says Marinis, it seems you may be under the impression that a couple’s assets are assessed individually.

But couples’ assets and income are assessed together in determining eligibility for Centrelink benefits, even if only one of you is applying for benefits.

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However, it can also mean that if one member of a couple is below the pension age, their super is exempt from Centrelink assessment until they reach that age.

As a result, based on the information you provide in your question, you will probably find your combined total assets exceed the current asset test cut-off based on an allowance for personal effects of $10,000, two cars at, say, $20,000 each and $10,000 in cash. That's about $1,020,000 in Centrelink assessable assets, making your partner ineligible for any age pension under the assets test.

Even if he managed to sneak in just under the asset test cut-off with $1 million in assets, your partner would only receive about $9 per fortnight in age pension or about $234 a year, says Marinis.

This assumes your super is exempt until age pension age by being in an accumulation account and not a pension.

Question the strategy

When you factor in the costs of selling the home plus stamp duty on the new $1.5 million home, Marinis has his doubts about pursuing the strategy for age pension entitlement reasons.

Both Will and Marinis recommend you consult a financial adviser to work through your strategy and consider alternatives to ensure you will be better off.

Do you want a more expensive house that may cost more to maintain? If your partner only receives a small part pension or none, will you end up better off?

Getting the right financial outcome can be complicated, says Marinis, as it is important to understand how Centrelink, superannuation and investments work, and consider what's most important to you both. Getting proper financial advice from a retirement specialist financial adviser can therefore be helpful.

Where you are not eligible for the government age pension, an important consideration is that you are not entitled to any government health concessions such as the pensioner concession card that comes with the age pension.

As an alternative, you can investigate whether your partner might be eligible for a Commonwealth Seniors Health Card. This can provide all the health and medical benefits and discounts without the actual age pension payments. To be eligible, says Marinis, you simply need to have adjusted taxable income under $152,640 per annum as a couple.

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