How super and pension payments are hit by the death of a spouse

By ANTHONY KEANE
PERSONAL FINANCE WRITER
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Senior Australians are being urged to take a closer look at how their finances may be impacted by the future death of their partner.

As the first Baby Boomers near age 80, retirement specialists are seeing more cases of surviving spouses being caught out financially by Centrelink's assets test and losing some or all of their pensions.

Superannuation benefits also can be affected, mainly among wealthier seniors, although the likelihood of a 15 per cent tax on the surviving partner's eventual inherited super jumps dramatically.

Financial strategist Theo Marinis said when member of a couple died, "Centrelink becomes a big issue because of the different asset thresholds."

A single homeowner can have $314,000 of assessable assets (apart from the home) and still receive a full age pension, while a couple combined can own $470,000. To qualify for a part pension, the maximum threshold for singles is $695,500 and for couples it is $1,045,500.

This creates financial danger zones for surviving spouses where they may lose pension entitlements after inheriting their late partner's share of assets.

"I see it all the time," Mr Marinis said of the issues around death, pensions and super.

"If you are on a part pension as a couple you will be impacted, a little or totally, because you are a single, but there's strategies to deal with it."

Losing a spouse is hard enough without having to lose income too. Picture: Supplied

Seniors can reduce their assessable assets through strategies such as giving away money, but this is limited to $10,000 a year and $30,000 over five years. They can pay for funerals in advance up to a $15,500 limit, or they can simply spend their money on a holiday or elsewhere.

“You start to appreciate your mortality when you lose your partner,” Mr Marinis said.

“There’s certainly things you can do. See an adviser and consider all the options.”

Superannuation withdrawals, income and capital gains are tax-free for most retirees, but the death of a partner can have financial consequences.

A spouse receiving their deceased partner’s super pays no tax, but non-dependants – such as adult children – could lose up to 15 per cent of it in tax. Financial planners often combat this by employing re-contribution strategies, but advice is vital.

There are also caps on how much super seniors can hold in their tax-free account based pensions, rising from $1.9m to $2m per person from July 1. This means wealthier couples may see some of their nest egg become taxable again after their partner passes away.

Mr Marinis said people impacted by pension reductions or super issues should remember that once their overall assets reduced, “at some point in time you will requalify”.

https://www.theaustralian.com.au/business/wealth/how-super-and-pension-payments-are-hit-by-the-death-of-a-spouse/news-story/db81bb53dfc5b1e41c4df79ca1de1f45

Retirement Essentials head of customer service Steven Sadler said a common barrier stopping people from taking action was because they did not want to discuss death.

"You can lose from just not knowing how things are going to play out," he said.

"People really do need to know more about this … no one wants to talk about dying."

Mr Sadler said he expected the issues around death and pensions to rise in the years ahead as more baby boomers died.

"We have had a few of our customers pass away unfortunately – it's definitely on the rise," he said.

"People are then assessed as a single, not a couple, so their thresholds come down significantly.

"There's a lot to know, and some timeliness issues – you have to do it reasonably quickly. Centrelink has a few handy links on their website. There are resources out there – you can feel alone but there is support available."

Financial Strategies (SA) Pty Ltd trading as Marinis Financial Group
T 08 8130 5130 | F 08 8331 9161 | A 49 Beulah Road, NORWOOD SA 5067
E admin@marinisgroup.com.au | W marinisgroup.com.au
ABN 54 083 005 930 5067 | AFSL No: 326403

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