Australian Unity

INFORMATION MEMORANDUM

TO	:	DEREK MCMILLAN – GROUP EXECUTIVE
FROM	:	KAELE STOKES – STRATEGIC PROJECTS MANAGER
DATE	:	28 SEPTEMBER 2010
SUBJECT	:	RETIREMENT INCOME AND THE IMPACT OF MOVING INTO A RETIREMENT VILLAGE

1.0 BACKGROUND

- The basic rates for full pensioners are $658.40 a fortnight for a single and $496.30 each for a couple ($992.60 per fortnight per couple).
- According to current Centrelink arrangements, retirees moving into a retirement village are penalised for selling their existing house to move into a retirement village, since the equity released from the family home is added to their assets and decreases their pension amount.
- This has led to a tendency among pensioners to 'arrange' their finances in such a way that they can retain assets/income to pass on and maximise the pension.
- The government should, in fact, be rewarding pensioners to better use their own income to maintain their own health and wellbeing, where it is possible for them to do so.
- See the below scenario modelling for further details.

2.0 EXAMPLE 1

Tom and Ruth Jones are a couple living in their family home. They are 78 and 76 respectively, and have both been assessed by Centrelink as full pensioners (on a transitional rate) on the basis of both their assets test and their income test. Their family home is not counted as an asset since they are still living there. They have some assets but limited income. Their income and assets consist of the following:

Income Test

Assessable income	$5,670 (deemed income off $150,000 investments - $72k @ 3% and 78k @ 4.5%)
Less threshold	<u>$6,656</u>
	$986 under the threshold

Assets Test

Assessable assets	$223,000 (including home contents, car and investments)
Less asset threshold	<u>$258,000</u>
	$ 35,000 under the threshold.

This means that under either assets or income testing, Tom and Ruth receive the full (transitional) couples pension, which equates to $1,079.60 a fortnight ($28,069.60 a year). The rate of pension is calculated under both the income and the asset tests, and the test with the lowest rate applies.

Tom and Ruth decide to move into more age-appropriate accommodation and choose a retirement village in their locality, which has an average unit price of $480,000.

They sell their 4 bedroom family home for $850,000 and purchase a retirement village unit for $480,000.

This means that they have an additional $370,000 in assets – and a total asset base of $593,000.

They are not eligible for an 'Extra Allowable Amount' for retirement village residents (which would allow them to be assessed as a non-homeowner and thus have a combined assets base of up to $359,500) because their entry contribution was more than the Extra Allowable Amount of $131,500).

Tom and Ruth have a revised assets and income test which reveals the following:

Income Test

Assessable income	$22,320 (including deemed income and interest on extra moneys from the sale of the house)
Less threshold	<u>$ 6,656</u>
	$15,664 over the threshold

Because their total combined annual income is worth $22,320, Tom and Ruth will receive a reduction in their pension (on the basis of the income test) of 25 cents in every dollar they are over the threshold.

$22,320 - $6,656 = $15,664 subject to the reduction. This means they would lose $7,832 of pension annually, reducing their total annual pension from $28,070 to $20,238 per annum.

Assets Test

Assessable assets	$593,000
Less asset threshold	<u>$258,000</u>
	$335,000 over the threshold

Because their total combined assets are worth $593,000, Tom and Ruth will receive a reduction in their pension of $1.50 per fortnight for every $1,000 above the threshold of $258,000.

$593,000 - $258,000 = $335,000 subject to the reduction, meaning that they will lose $13,065 a year, reducing their total annual pension from $28,070 to $15,005.

Because the assets test results in a lower amount, Centrelink use the assets test to calculate the amount of pension payable.

This will leave Tom and Ruth with an annual pension of $15,005 or $577.11 a fortnight. They also have their annual income of $22,320, which adds $858.46 a fortnight.

This means Tom and Ruth have $1435.57 a fortnight.

This is higher than the $2,287.60 a month suggested by the Association of Superannuation Funds of Australia *Retirement Budget Standards* (April 2010) for a modest standard of living for an older couple but it is lower than the $4057.60 a month that supposedly constitutes a comfortable retirement.

3.0 EXAMPLE 2

Mavis Jones is 78 and lives alone in her family home as a widow. She was never employed, so she and her husband lived off his superannuation after he retired. There is very little money left. She has limited assets.

Income Test

Assessable income	$--
Less threshold	<u>$3,796</u>
	$3,796 under threshold

Assets Test

Assessable assets	$90,000 (including home contents, car and investments)
Less asset threshold	<u>$181,750</u>
	$91,750 under the threshold.

This means that under either assets or income testing, Mavis receives the full (transitional) singles pension, which equates to $716.10 a fortnight ($18,618.60 a year). The rate of pension is calculated under both the income and the asset tests, and the test with the lowest rate applies.

Mavis decides her house is too big for her and looks at moving into a nearby retirement village. She decides to purchase a small independent living unit for $420,000 and sells her family home for $650,000.

This increases Mavis's asset base from $90,000 to $320,000 (which includes the balance of sale of $230,000).

She is not eligible for an 'Extra Allowable Amount' for retirement village residents (which would allow her to be assessed as a non-homeowner and thus have an assets base of $313,250) because her entry contribution was more than the Extra Allowable Amount of $131,500).

Mavis has a revised assets and income test which reveals the following:

Income Test

Assessable income	$9,702 (including interest on extra moneys from the sale of the house)

Less threshold	$ 3,796	
	$5,906 over the threshold	

Because her total income is worth $9,702, Mavis will receive a reduction in her pension (on the basis of the income test) of 50 cents in every dollar she is over the threshold.

$9,702 - $3,796 = $5,906 subject to the reduction. This means she would lose $2,953 of pension annually, reducing her total annual pension from $18,619 to $15,666 per annum.

Assets Test

Assessable assets	$320,000
Less asset threshold	$181,750
	$138,250 over the threshold

Because Mavis's assets are worth $320,000, Tom and Ruth will receive a reduction in their pension of $1.50 per fortnight for every $1,000 above the threshold of $181,750.

$320,000 - $181,750 = $138,250 subject to the reduction, meaning that she will lose $5,392 in pension a year, reducing her total annual pension from $18,619 to $13,227.

Because the assets test results in a lower amount, Centrelink use the assets test to calculate the amount of pension payable.

This will leave Mavis with a fortnightly income of $13,226.85 a year or $508.73 a fortnight. She also has her annual income of $9,702 or $373.15 a fortnight.

This means Mavis has $881.88 a fortnight total.

This is higher than the $1,607.20 a month suggested by the Association of Superannuation Funds of Australia *Retirement Budget Standards* (April 2010) for a modest standard of living for an older female but it is a far cry from the $2,996.40 suggested for a comfortable standard of living.

Kaele Stokes
Strategic Projects Manager
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