

# Understanding Social Security



# This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to social security.

## **Important information**

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This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice.

As legislation may change you should ensure you have the most recent version of this document.

# How to read this document

## **Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task.**

There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important that you understand how these issues will impact on you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SOA) which sets out the details of the advice and how it will meet your goals and objectives.

This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to social security.

It is very important that you read this document to help you understand the benefits of the strategies recommended to you, and the associated costs and risks.

If you do not understand anything or need further clarification, please contact us.

# Understanding Social Security

**The Australian Government offers a range of social security services and payments to support those in need and assist people to become self-sufficient.**

**Benefits are provided through various means, such as pensions, allowances, concessions and aged care services.**

## Pensions and Allowances

The following is a list of some common types of Social Security pensions and allowances:

- Age Pension
- Family Tax Benefit
- Disability Support Pension
- Newstart Allowance
- Carer Payment
- Carer Allowance

To apply for Centrelink benefits, basic conditions of eligibility (such as age, health, employment status) and residential requirements must be met.

In some circumstances an income and assets test is also applied to determine eligibility. In this case, the lower payment benefit resulting from the two tests will determine the actual benefit received.

## Assets Test

Different assets may be treated in different ways by Centrelink. Some assets may be fully or partially exempt. In some cases, assets you no longer have could even be counted if they were sold or given away for less than their market value.

### How is the Assets Test Applied?

A minimum and maximum assets test threshold is applied to most pension payments. For pensions, assessable assets below the lower threshold entitles you to the maximum payment under the assets test. The maximum payment is reduced for each \$1,000 of assets exceeding the lower limit.

For allowances, no payment is payable under the assets test if your assets exceed the lower threshold limit.

## Income test

Income may be treated in different ways by Centrelink, depending on its source. Financial assets are deemed by Centrelink to earn a specified rate or income.

### Deeming Provisions

Deeming provisions were put in place to simplify income test assessments of returns from financial investments. Under previous rules, income returns for each investment were assessed on actual returns. Centrelink had to therefore track the returns of each direct and managed investment.

Deeming provisions were also put in place to encourage people to maximise income from other sources without penalising them by reducing their Centrelink entitlements.

Under current deeming rules, almost all financial investments are deemed to be receiving a certain level of return, regardless of the actual return received.

Deeming rates are reviewed from time to time to reflect rises and falls in market interest rates.

Financial Assets include:

- bank, building society and credit union accounts
- term deposits and debentures
- friendly society bonds
- managed investments
- listed shares and securities
- shares in unlisted public companies
- certain income streams
- superannuation fund investments held by people over Age Pension age

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- loans, including those to family trusts and companies
- gifts - you have given of money or other assets of more than \$10,000 in a financial year, or more than \$30,000 over five financial years.

## How is the Income Test Applied?

The deemed income is added to any income you have from other sources such as income from employment, or rental income from property. Your total income is then used to work out how much pension, benefit or allowance can be paid to you.

A minimum and maximum income test threshold is applied to most pension and allowance payments. Assessable income below the lower threshold entitles you to the maximum payment under the income test. The maximum payment is reduced by \$0.40 (for single people) or \$0.20 (for couples) for every dollar exceeding the lower limit for pensions.

## Concession cards

The following is a list of some common types of Social Security concessional cards:

### Health Care Cards

The Health Care card is issued to all allowance recipients, and a Low Income Health Care Card is available for people who have low incomes. This card provides access to cheaper medicines under the Pharmaceutical Benefits Scheme (PBS). Holders of this card may also receive discounts on public transport.

### Pensioner Concessional Card

The Pensioner Concession card is issued to all pensioners or part pensioners and some other social security recipients who receive at least \$1 of pension payment per fortnight. In addition to the benefits provided by the Health Care card, the Pensioner Concession card may allow access to other discounts such as reductions on motor vehicle registration and drivers' licences, council rates and several other state based discounts. The actual discounts available will depend on your local or state government.

### Commonwealth Seniors Health Card

The Commonwealth Seniors Health card provides access to cheaper medicines under the PBS and other discounts such as free ambulance transport in some states. To qualify for this card you must have reached Age Pension or Service Pension age and must not be entitled to, or have chosen not to claim, an entitlement to Social Security benefits. There is no assets test limit to get this card but there is an income test limit.

## Aged Care Services

The Australian Government aims to ensure that affordable, accessible and quality aged care is available to all older Australians when required.

The following is a list of some common types of aged care services.

### Aged Care Homes

Where it is no longer possible to stay at home due to ageing, illness or disability, the Australian Government funds places in aged care facilities offering quality care and services.

There are two types of residential aged care - high-level and low-level care. To be eligible for either of these aged care facilities, an assessment must be undertaken by the Aged Care Assessment Team (ACAT).

### Low-level Care

Hostel accommodation is a form of low-level care. This type of facility provides assistance with meals, laundry and personal care.

### High-level Care

Nursing homes are a form of high-level care. This type of facility provides nursing care, meals, laundry, cleaning and personal care.

The essential difference between nursing homes and hostels is that nursing homes provide 24 hour nursing care.

### Extra Services Facilities

Some nursing homes and hostels provide a higher level of accommodation and care services than the standard facilities. Examples of extra services are higher standard of food and higher quality of accommodation, likened to hotel type services.

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The range of extra services offered in an extra service facility varies between providers.

An extra services fee is payable if entering an extra service facility. The amount must be specified on the contract a person signs before taking up residence. There are no government set limits on extra services fees.

## Community Care

Whenever possible, community care assists people to remain at home despite the effects of ageing. There are a number of programs available to assist older Australians who would qualify for at least low-level care in an aged care home with their daily living activities.

The Home and Community Care program (HACC) and Community Aged Care Packages (CACP) are two such programs. CACP provides a package of services whereas, HACC may, provide one or more services.

These services aim to meet basic needs of older Australians to maintain their independence at home and in the community. The types of services that may be provided include personal care, meal preparation and transport.