PURCHASE AN ANNUITY

A lifetime annuity is an investment that pays a regular income for the remainder of your life. An annuity provides a guaranteed income, regardless of the ups and downs of investment markets. The trade-off is you can't vary the amount you draw or make lump-sum withdrawals. From Centrelink's perspective, a lifetime annuity reduces in value each year, meaning over time your assessable assets reduce and your age pension increases — slightly in the early years and ever more over time. A good strategy can be to use part of your existing account-based pension to purchase a lifetime annuity. This will give you a more certain income from part of your portfolio and more age pension over time while retaining the freedom to access your capital and the ability to vary payment amounts that an account-based pension brings.

MOVE SUPER TO YOUR YOUNGER SPOUSE

If you are under age pension age, funds held in a superannuation accumulation account do not count as a Centrelink-assessable asset. This presents an opportunity for couples with an age gap to maximise their age pension entitlement. The older, age pension-aged spouse can look to withdraw part of their account-based pension and the younger, non-age pension aged spouse can then contribute these funds to their superannuation accumulation account. Doing this will reduce your Centrelink assessable assets and increase the age pension of the older spouse.

There are some important factors to consider with this strategy: limits on the amount that can be contributed to superannuation, tax implications and the ability to access money once in the spouse's superannuation fund. It's particularly important you seek professional advice before considering this strategy.

GIFTING

You can gift up to $10,000 each financial year to a maximum of $30,000 over five financial years. Of course, you are able to give away more (nobody can tell you what to do with your money) but the excess will continue to be treated as an asset by Centrelink for five years. So, you can give your children $100,000 but Centrelink will reduce your assessable-assets by only $10,000. The $10,000 gift will result in an immediate, albeit small, increase in age pension. After five years, Centrelink will stop reporting the $100,000 you gave away as an asset. So, if you are currently more than five years away from age pension age you could choose to gift a larger amount to the kids because, by the time you qualify for the pension, the five-year limit will have been reached and it will not count in your application for the pension. Plus the kids will love you that little bit more.

HOME RENOVATIONS

Centrelink does not count your home as an assessable asset. Using funds you have in cash or making a withdrawal from your account-based pension to fund the kitchen upgrade or new alfresco area you've always wanted can result in an increase to your pension. Taking funds from assessable assets and spending them on a non-assessable asset will mean your assets have reduced in Centrelink's eyes.

HOLIDAYS

Been dreaming of that European adventure but couldn't justify the cost? Using funds to go on a holiday reduces your assessable assets, increasing your age pension entitlement and enjoying yourself at the same time.

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WHAT CAN JOHN AND MARY DO?

John and Mary have assessable Centrelink assets of $823,000, of which $723,000 is in an account-based pension, and they are drawing the minimum required 5 per cent. They receive $36,150 in account-based pension payments plus $13,254 in pension, equating to an income of $49,404, which they need to live on. On January 1, 2017, they will lose their age pension entirely.

If they were to use $200,000 from the account-based pension, purchase a $150,000 lifetime annuity, spend $30,000 on a new kitchen and $20,000 on a holiday, they would receive $7500 in annuity payments and get back $3879 a year in age pension. They would need to draw $38,025 from their account-based pension to retain the same income. Remember this is now on a lower balance. In future years, their pension will increase as less of the annuity counts as an asset