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The $500,000 Question

NAVIGATING AGED CARE COSTS AND REFUNDABLE ACCOMMODATION DEPOSITS IN RETIREMENT

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Note: Aged care fees, thresholds, and caps are subject to regular indexation and government policy changes. The principles and strategies discussed remain relevant, but specific dollar amounts should be verified with Services Australia, My Aged Care, or your financial adviser when making decisions.

BY WEALTH ADVISER

Introduction: A Decision Most Australians Will Face

At some point, most Australian families confront one of retirement's most complex financial decisions: how to fund residential aged care. Whether planning for your future, supporting aging parents, or facing unexpected care needs, understanding aged care costs can mean the difference between financial stress and confident decision-making.

Refundable Accommodation Deposits (RADs) now commonly range from $350,000 to over $700,000 in metropolitan areas, with premium facilities exceeding $1 million. This often represents the second-largest financial commitment after a home purchase—yet unlike buying a house, aged care decisions frequently need to be made within weeks, under emotional pressure.

This article provides a framework for understanding aged care costs, funding strategies, and wealth protection. Whether planning decades ahead or facing immediate care transition, the goal is ensuring quality care while making informed financial decisions that protect your retirement security and family legacy.

Understanding Aged Care Costs: The Four Components

1. **Accommodation Payment (RAD or DAP):** The room cost—pay as lump sum RAD (fully refundable), daily DAP (similar to paying interest), or combination. RAD amounts vary by location and facility. The RAD is refundable, not a lost cost.
2. **Basic Daily Fee:** Everyone pays this (currently 85% of the basic single Age Pension, excluding supplements). Covers meals, cleaning, laundry. Amount is indexed regularly.
3. **Means-Tested Care Fee:** Based on your assets and income. Subject to daily, annual, and lifetime caps. Calculated differently from Age Pension, creating planning opportunities.
4. **Additional Services:** Optional extras like premium meals or activities—negotiable and unregulated.

The RAD Decision: Lump Sum, Daily Payments, or Combination?

The government's Maximum Permissible Interest Rate (MPIR) determines the daily payment equivalent of any unpaid RAD amount. This rate changes periodically based on market conditions.

For context, if the MPIR is around 8%, a $600,000 RAD would equal approximately $130-140 per day in DAP payments (roughly $47,000-51,000 annually). This means choosing full DAP over full RAD effectively costs the equivalent of the MPIR rate per year on the unpaid amount.

Important: DAP payments are not tax-deductible, even if paid from investment income or earnings.

Strategic Considerations

Pay more RAD (less DAP) if:

- You have sufficient liquid assets without compromising lifestyle
- You expect a longer stay in care
- You want predictable, fixed accommodation costs
- Your means-tested care fee would decrease by reducing assessable assets

Pay more DAP (less RAD) if:

- You need to preserve liquidity for other purposes
- Your investments have historically earned returns exceeding the DAP rate after tax (noting that DAP is a guaranteed cost while investment returns are variable and carry risk)
- You're uncertain about length of stay
- Selling assets would trigger significant capital gains tax

Real Example: Sarah, 82, entered care with $850,000 in savings. The facility's RAD was $550,000. She paid $400,000 as RAD and took daily payments on the remaining $150,000. This preserved $450,000 in investments earning income to cover her ongoing care costs, while the partial RAD payment reduced her means-tested care fee by lowering assessable assets.

Flexibility Note: You can adjust your RAD/DAP combination after entry, subject to the facility's agreement. This allows you to adapt your payment structure if your circumstances change.

Funding Your RAD: Four Primary Sources

1. Selling the Family Home

Most common for single people entering care. The family home is typically CGT-exempt (principal residence exemption), provides ample funds, and eliminates property management. However, it's emotionally difficult and permanent. The two-year means testing exemption gives time to decide without pressure.

2. Superannuation Access

Once you've met a condition of release (generally age 60+ and retired, or 65 regardless), super becomes accessible. Withdrawals are tax-free for those 60+ in pension phase, providing liquidity without forced property sales. Consider the impact on a surviving spouse's income and Age Pension entitlements.

3. Investment Portfolio

Using non-super investments, term deposits, or savings avoids forced home sales and can be structured gradually.

Be aware of potential capital gains tax on asset sales and ensure sufficient remaining funds for ongoing costs.

4. Keeping the Home

Some families retain and rent the home while using other assets for the RAD. This preserves the asset and potential growth, and generates rental income. However, you need sufficient other funds for the RAD, ongoing property costs remain, and after two years the home is assessed for means testing unless occupied by a spouse or protected person.

Means Testing: Minimizing Your Costs

The means-tested care fee is calculated based on both income and assets, using different rules than Age Pension means testing. Understanding these rules creates planning opportunities.

How Assessment Works

Your means-tested fee is calculated by combining both income and asset assessments:

- **Income test:** Includes Age Pension, investment income, rental income, and deemed income on financial assets. Income above certain thresholds contributes to your care fee.
- **Asset test:** Counts cash, investments, super in accumulation, and property (excluding your RAD and protected family home). Assets above certain thresholds contribute to your care fee.

The formula combines both assessments together - it's not simply "whichever is higher" like Age Pension means testing.

Important Caps (amounts subject to indexation):

- Daily maximum
- Annual maximum
- Lifetime maximum

These caps protect against excessive ongoing costs. Check current thresholds with Services Australia or your adviser.

The Two-Year Home Exemption

Your family home is automatically exempt from aged care asset testing for two years after entry. After two years, it becomes assessable unless occupied by a spouse, dependent child, or certain close relatives. This creates a valuable planning window to make considered decisions about selling or keeping the home.

Optimization Strategies

RAD Payment Strategy: Paying a larger RAD reduces assessable assets (the RAD itself is exempt), which can lower your means-tested care fee. This saving may partially or fully offset the DAP you'd otherwise pay.
Gifting: Limited gifting is permitted (currently $10,000 per financial year, maximum $30,000 over five years). Gifts above these limits are treated as deprived assets and continue to be assessed as if you still own them, for both income and asset testing purposes, for five years.

Investment Structure: Growth-oriented investments with minimal distributions may reduce income assessment compared to high-yielding assets.
Professional advice ensures compliance while maximizing legitimate opportunities to reduce fees.

The Family Home: Keep or Sell?

There's no universally right answer—it depends on your circumstances.

When Selling Makes Sense

Provides immediate RAD funds, is CGT-exempt (principal residence), eliminates ongoing property costs, and simplifies estate settlement. May improve Age Pension if proceeds fund the RAD. However, it's emotionally difficult and permanent.

When Keeping Makes Sense

Retains an appreciating asset, can generate rental income, and is protected from means testing if your spouse lives there. Provides return flexibility if care needs change. However, requires alternative RAD funds, ongoing property costs and management, and after two years is assessed unless occupied by a protected person.

Two Scenarios

Couple: John and Margaret kept their $650,000 home (Margaret remaining) and paid RAD from savings. Five years later when Margaret needed care, they sold the appreciated home to fund her RAD. The delay captured significant capital growth.

Single Person: Robert sold his $600,000 home, paid the full RAD, and retained his investments for ongoing income. This eliminated property stress and provided cost certainty.

Estate Planning Integration

RAD Refunds: Fully refundable to your estate (less any accrued charges). Facilities typically have 14 days to process the refund after receiving probate or letters of administration, though delays can occur if estate paperwork is slow. This creates guaranteed estate liquidity once documentation is complete.

Powers of Attorney: Essential before capacity declines. Enduring Power of Attorney (financial) authorizes aged care decisions including home sales. Medical Power of Attorney covers health decisions. Both should be in place in your 50s-60s, not when care is imminent.

Superannuation Considerations: If using super for RAD funding, review binding death benefit nominations. Super doesn't automatically go to your estate—the RAD refund does. This can affect tax outcomes for beneficiaries and estate distribution.

Practical Action Steps

Planning Ahead (Age 50-65)

1. **Have family conversations** about care preferences, home ownership intentions, and values
2. **Review financial position** - estimate assets at aged care entry age, identify potential RAD funding sources
3. **Update legal documents** - Enduring Power of Attorney (financial and medical), will, super binding nominations
4. **Consider home strategy** - would downsizing before care entry be beneficial?
5. **Structure for flexibility** - work with adviser to optimize asset positioning for aged care means testing

Facing Immediate Decision (Care Entry Now)

Week 1-2: Secure temporary accommodation, contact My Aged Care (1800 200 422), arrange ACAT assessment, gather documentation.
Week 2-4: Visit facilities, request detailed fee schedules, complete Services Australia financial assessment, understand your means-tested costs.
Week 3-6: Work with adviser to model RAD/DAP scenarios, evaluate home sale timing, review Age Pension impact, consider estate implications.
Week 4-8: Choose facility, negotiate RAD if possible (noting that facilities can only negotiate below their published maximum, and only before signing the agreement), decide payment structure, arrange funding, execute documentation.
Important: You typically have 28 days from entry to agree on terms. Extensions may be available for genuine asset sales or settlements. Don't rush—use the time to make informed decisions.

When to Seek Professional Advice

Contact your financial adviser urgently if you're:

- Uncertain about keeping or selling the family home
- Facing unexpectedly high means-tested care fees
- Dealing with complex assets (trusts, business interests, overseas property)
- Unclear on super or Age Pension implications
- Experiencing family disagreements on approach
- Being pressured to decide quickly without full information

Your adviser can model scenarios, identify cost-minimization opportunities, and ensure decisions align with your broader financial and estate planning goals.

Conclusion: Planning for Dignity and Choice

Aged care costs represent a significant financial challenge, but informed decision-making ensures quality care while protecting your financial security and family legacy.

Key Principles:

- RAD payments are refundable—a loan, not a lost cost
- Means testing can be optimized through proper structuring
- Home decisions involve both financial and emotional factors
- Early planning provides options that disappear in a crisis
- Professional advice adds significant value given the complexity

Your Next Step

If planning ahead, schedule a conversation with your adviser about aged care scenarios in your retirement plan. Discuss funding sources, means testing implications, and estate planning while you have time to implement optimal strategies.

If facing immediate decisions, contact your adviser urgently. They can model your situation, identify cost-minimization opportunities, and ensure choices align with your broader financial and family goals.

Aged care planning is about maintaining dignity, receiving quality care, and protecting your legacy. With proper guidance, you can navigate this transition with confidence.

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INSURANCE AS WEALTH INFRASTRUCTURE

STRATEGIC COVER FOR BUILDING AND PROTECTING FAMILY LEGACIES

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Note: Insurance products, tax rules, and contribution caps are subject to change. The principles and strategies discussed remain relevant, but specific provisions should be verified with your financial adviser when making decisions.

BY WEALTH ADVISER

Introduction: From Risk Protection to Wealth Strategy

Most Australians view insurance as necessary protection against catastrophic loss. Yet for families building substantial wealth, insurance can serve a far more strategic role—not just protecting what exists, but enabling the confident risk-taking that builds wealth in the first place, while ensuring that multi-generational legacies survive unexpected events.

The underinsurance data is striking. Australians are collectively underinsured by approximately $1.5 trillion, with significant gaps particularly among families with young children and mortgage debt. Yet this crisis reveals an opportunity: when structured thoughtfully, insurance becomes one of the most powerful tools for wealth creation and preservation.

This article explores insurance as strategic infrastructure rather than grudge purchase. We'll focus primarily on life insurance—the foundation of most wealth protection strategies—while addressing how trauma, TPD, and income protection complement this foundation. The goal is understanding the strategic trade-offs and considerations that inform effective insurance planning.

The Underinsurance Reality: Understanding the Stakes

Research consistently shows advised Australians hold 2.5 times more insurance than those without advice, yet most households remain inadequately covered. The gap exists due to cost concerns, complexity, optimism bias, and reliance on insufficient default super fund cover.

For wealth-building families, underinsurance creates specific vulnerabilities: forced asset liquidation to clear debt, business failure without key person cover, derailed education plans, estate inequality among children, and compromised retirement security for surviving spouses.

Understanding these stakes transforms insurance from grudge purchase to strategic infrastructure. The goal isn't maximum cover—it's appropriate cover, properly structured, at sustainable cost.

Death benefits are paid tax-free directly to nominated beneficiaries, providing complete control over distribution through policy ownership. There's no super compliance complexity or trustee discretion. The cover is immediately accessible.

Life Insurance: The Foundation of Wealth Protection

Life insurance serves as the cornerstone of most wealth protection strategies. It creates immediate capital upon death, providing liquidity when families need it most and enabling wealth preservation across generations.

Determining Adequate Cover: Strategic Considerations

The traditional "10 times annual income" rule oversimplifies a complex question. Adequate cover depends on your unique circumstances and what you're trying to achieve.

Strategic considerations include:

The debt you'd want cleared (mortgage, investment loans, business debts), the income replacement period needed (until children finish education, until retirement age, indefinitely), future obligations you've committed to (education costs, aged care support for parents), whether you want to preserve wealth rather than liquidate it (maintaining investment portfolios, protecting business value), and existing resources that reduce the need (savings, super balances, other insurance, spouse's earning capacity).

These factors interact differently for every family. A 40-year-old with a $600,000 mortgage, two school-age children, and a spouse earning $60,000 might need anywhere from $1.5-2.5 million depending on priorities—but another family with identical circumstances might conclude differently based on their values and risk tolerance.

This is why comprehensive insurance planning requires professional guidance tailored to your specific situation rather than formulaic calculations.

The Inside vs Outside Super Decision: Key Trade-offs

One of the most consequential insurance decisions is whether to hold life insurance inside superannuation or outside it. Neither approach is universally "better"—each involves trade-offs that matter differently depending on your circumstances.

Inside Superannuation:

Premiums are paid from pre-tax super contributions, making cover often materially cheaper—commonly 20-40% less than identical outside-super cover, though the exact benefit depends on your marginal tax rate and contribution circumstances. This cost efficiency is compelling, particularly for large cover amounts. However, death benefits may be taxable to non-dependent beneficiaries—adult children typically pay tax on the taxable component of super benefits. You'll also need binding death benefit nominations to control where benefits go (noting these can lapse or become invalid if not maintained correctly), and the cover sits within super's regulatory framework including preservation rules and contribution caps.

Outside Superannuation:

Death benefits are paid tax-free directly to nominated beneficiaries, providing complete control over distribution through policy ownership. There's no super compliance complexity or trustee discretion. The cover is immediately accessible. However, premiums are paid from after-tax income with no tax benefit, making it more expensive—often materially so—than inside-super cover. This higher cost affects household cash flow and sustainability of cover.

How Advisers Often Structure This:

Many strategies use a combination approach: base cover inside super (where the surviving spouse receives benefits tax-free as a dependant), with additional cover outside super for specific purposes like estate equalization among adult children or business succession funding where tax-free benefits matter most.

The worked example of Michael earlier illustrates this: $1.5 million inside super for his wife (tax-free to spouse), plus $500,000 outside super to provide equal, tax-free benefits to all his children from different relationships. The structure matches different objectives with appropriate vehicles.

Your adviser can model both approaches using your specific numbers, tax position, estate planning goals, and family structure to determine what makes sense for you.

Beyond Life: Complementary Protections

Three additional cover types provide comprehensive protection:

Total and Permanent Disability (TPD): Pays a lump sum if you become permanently unable to work. Clears debt, funds home modifications, replaces lost super contributions. Often bundled with life insurance. Can be held inside or outside super.

Trauma Insurance: Pays on diagnosis of specified conditions (cancer, heart attack, stroke). Covers treatment costs, allows time off work, maintains investments. Usually held outside super. Trauma insurance often becomes less valuable later in life once investment income and accumulated savings are sufficient to cover potential medical costs and lifestyle adjustments.

Income Protection: Replaces ~75% of income if unable to work due to illness or injury. Maintains mortgage payments and super contributions. Held outside super (tax-deductible premiums, taxable benefits).

Coverage Priorities: For most wealth-building families: (1) Life insurance (essential), (2) Income protection (highly valuable), (3) TPD (important), (4) Trauma (valuable but optional depending on budget).

Strategic Applications: Estate Planning and Business Succession

Insurance becomes most powerful when integrated with broader wealth and estate planning strategies.

Estate Equalization

Life insurance solves a difficult estate planning problem: treating children fairly when assets are illiquid or unequally distributed.

Common scenarios: One child works in family business, real estate holdings can't be divided, blended families, significant wealth in super with tax consequences for non-dependant beneficiaries.

Insurance solution: Creates liquid, tax-free capital to equalize distributions or compensate children receiving less from other estate assets.

Business Succession Example

David's Engineering Firm:

David, 52, owns a successful engineering consultancy worth approximately $3 million. His business partner Sarah, 48, owns the other half. David has three children: two adult children from his first marriage and a 12-year-old daughter with his current wife.

The Challenge:

- If David dies, his business share goes to his estate
- Sarah needs to buy out David's share to maintain business control
- David's estate needs liquidity to provide for all three children equally
- The business share represents most of David's wealth
- Without planning, Sarah would need to find $1.5 million to buy the business share, likely requiring external investors or business sale
- David's children would wait years for estate settlement and possibly receive less than business value

The Insurance Solution:

David and Sarah establish a buy-sell agreement funded by life insurance:

- Each takes out $1.5 million life insurance on the other's life (held in their personal names, outside super)
- If David dies, Sarah receives $1.5 million tax-free from the policy
- She uses this to purchase David's business share from his estate
- David's estate receives $1.5 million cash immediately
- His will distributes $500,000 to each of his three children equally
- Sarah retains 100% business ownership without taking on debt or external partners
- The business continues uninterrupted

Additionally, David holds $1.5 million life insurance inside his super (with binding nomination to his current wife) to clear the mortgage and provide ongoing support for his 12-year-old daughter.

Result: David's total cover is $3 million ($1.5M business, $1.5M family), structured to serve different purposes. The outside-super policy enables business succession and estate equalization, while the inside-super policy provides tax-effective family support.

This structure protects David's family wealth, ensures his business survives his death, treats all children fairly, and costs substantially less than maintaining $3 million all outside super.

Cost Optimization and Review: Balancing Protection with Sustainability

Insurance is only valuable if you can sustain it over the long term. The challenge is balancing adequate protection with premiums you can maintain through changing circumstances.

Strategic Considerations for Managing Costs

Cover held inside super benefits from pre-tax funding, making it substantially more affordable than outside-super alternatives. The choice between stepped premiums (which increase with age but start cheaper) and level premiums (which start higher but increase only with inflation) involves trade-offs between current affordability and long-term sustainability.

Policy features significantly impact cost. Income protection with a 90-day waiting period costs notably less than 30-day cover—the question is whether your circumstances

Those approaching or in retirement might explore whether reducing cover makes sense given accumulated wealth, or whether maintaining some level remains appropriate for estate planning purposes. Changes in health or insurability might make reviewing and optimizing current cover urgent, since replacing it might not be possible.

allow you to fund yourself for that longer period. Similar trade-offs exist around benefit periods, occupation definitions, and policy inclusions.

Insurance needs aren't static. Regular review ensures cover remains appropriate as circumstances evolve. Annual checks of beneficiary nominations prevent outdated designations. Broader reviews every few years assess whether cover amounts still match your obligations and whether your structure remains optimal for your current situation.

When Cover Needs Change

As wealth accumulates and obligations decline, insurance needs naturally shift. A mortgage paid down substantially, children who've become financially independent, or an investment portfolio that's grown large enough to self-insure some risks—all these suggest reviewing whether your current cover level remains appropriate.

Eventually, many people reach a point where they've accumulated sufficient assets to self-insure, or where the cost of cover exceeds the benefit it provides. This might mean reducing cover rather than eliminating it—many retirees maintain modest life insurance outside super specifically for tax-free estate benefits, even when they could theoretically self-insure.

The opposite can also be true. Estate equalization might remain important even in retirement. Significant debts that persist into later life might warrant maintaining cover. Business succession obligations don't always end with retirement from active management.

These decisions are highly personal and depend on your specific circumstances, family structure, and wealth position. Your adviser can help you evaluate when and how to adjust cover as your situation evolves.

Discussion Points for Your Adviser

Insurance planning involves complex trade-offs that depend heavily on your specific circumstances, family structure, and wealth-building goals. When discussing insurance with your adviser, several key areas warrant exploration.

If You're Establishing or Reviewing Cover

Understanding your actual insurance need goes beyond simple formulas. The conversation should explore what you're trying to achieve—debt elimination, income replacement, wealth preservation, estate equalization—and how much capital would be required to accomplish those objectives given your specific situation.

The inside versus outside super decision deserves careful analysis. Your adviser can model both approaches using your actual numbers, showing the cost differential, tax implications for your beneficiaries, and how each structure serves your estate planning objectives. For many families, a combination approach makes sense, but the optimal split depends on your circumstances.

If you have existing cover, it's worth examining whether it remains fit for purpose. Beneficiary nominations may need updating following marriages, divorces, births, or deaths. The cover amount might no longer match your current debt levels, income, or obligations. The structure might not align with your current estate planning strategy. Costs might have escalated to where alternatives deserve exploration.

If Your Situation Has Complexity

Certain circumstances introduce additional considerations worth discussing thoroughly. Blended families often benefit from strategic use of outside-super cover to ensure fair treatment of children from different relationships. Business owners need to consider whether business succession and estate planning objectives are adequately addressed.

Those approaching or in retirement might explore whether reducing cover makes sense given accumulated wealth, or whether maintaining some level remains appropriate for estate planning purposes. Changes in health or insurability might make reviewing and optimizing current cover urgent, since replacing it might not be possible.

The Value of Professional Guidance

Research consistently shows that advised Australians hold substantially more appropriate insurance cover than those without advice. This isn't because advisers push products—it's because comprehensive analysis often reveals gaps people don't recognize and structures that serve objectives more effectively than default approaches.

Your adviser can provide modeling specific to your situation, coordinate insurance strategy with broader estate and tax planning, explain complex trade-offs in accessible terms, and help you make decisions that balance protection with sustainability.

Conclusion: Insurance as Strategic Infrastructure

For Australian families building wealth, insurance serves a purpose beyond simple risk transfer. When properly structured, it becomes infrastructure that enables confident decision-making, protects multi-generational legacies, and ensures that wealth-building efforts survive life's inevitable challenges.

Strategic Principles Worth Understanding:

Adequate cover emerges from comprehensive analysis of your unique circumstances, not from rules of thumb or industry averages. The inside versus outside super decision involves material trade-offs around cost, tax, and estate planning flexibility—trade-offs that matter differently for different families. Many sophisticated strategies use combinations of cover types and structures, each serving specific purposes within a broader wealth plan.

Insurance integrates with estate planning, business succession, and wealth preservation in ways that create value beyond the cover amount itself. Regular review ensures strategies remain aligned with changing circumstances, obligations, and wealth levels.

The Role of Professional Guidance

The complexity of insurance planning—the trade-offs, tax implications, estate planning considerations, and cost management strategies—makes professional guidance particularly valuable. Advisers can model scenarios specific to your situation, explain technical considerations in accessible terms, and help structure solutions that balance protection with sustainability.

Insurance planning isn't about achieving perfect coverage or minimizing all risk. It's about creating appropriate protection that enables you to build wealth confidently, knowing your family and legacy have the security you intend for them, structured in ways that serve your specific objectives and values.

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DOWNSIZER CONTRIBUTIONS DEMYSTIFIED

THE $300K SUPER OPPORTUNITY AFTER 55

Note: Superannuation rules, contribution caps, and Age Pension thresholds are subject to change. The principles and decision frameworks discussed remain relevant, but specific provisions should be verified with your financial adviser when making decisions.

BY WEALTH ADVISER

Introduction: A Powerful Tool That's Not Right for Everyone

From age 55, Australians who sell their home can contribute up to $300,000 per person from the sale proceeds into super, regardless of other contribution caps, work tests, or balance limits. For couples, this creates a potential $600,000 boost to retirement savings.

Yet this opportunity comes with important caveats. For some, the strategy unlocks financial security and retirement flexibility. For others, it creates problems with Age Pension eligibility, estate planning, or access that outweigh the benefits.

This article explores downsizer contributions as a decision requiring careful analysis of your circumstances, retirement timeline, and wealth objectives. We'll examine the key strategic questions, outline eligibility requirements, present scenarios showing when it works and when it doesn't, and discuss alternatives worth considering.

The Strategic Questions: Is This Right for You?

Before diving into eligibility rules and mechanics, several fundamental questions help determine whether downsizer contributions align with your retirement strategy.

Will This Affect Your Age Pension Entitlement?

Moving funds from home equity (exempt from Age Pension assets test) into superannuation (assessable) can significantly reduce or eliminate pension entitlements. A homeowner couple can hold $481,500 in combined assessable assets (from 20 September 2025) before Age Pension begins reducing, with the part pension cut-off at $1,074,000 combined. Adding $600,000 to super could push a couple well over these thresholds.

For couples with modest super balances expecting partial Age Pension, downsizer contributions might cost more in lost pension than they gain in super benefits. Conversely, for those with substantial existing balances who won't qualify for Age Pension regardless, this consideration becomes irrelevant.

Are You Approaching Transfer Balance Cap Issues?

The transfer balance cap limits how much you can transfer into tax-free retirement phase (currently $2 million). If you're approaching your personal transfer balance cap and make a $300,000 downsizer contribution, additional super remains in accumulation phase where earnings are taxed at 15%, reducing the benefit of further contributions.

This particularly affects people in their late 60s and 70s with substantial super balances already managing transfer balance cap issues.

What Are Your Estate Planning Objectives?

Your principal residence typically passes through your estate according to your will with CGT exemption. Super sits outside your estate and distributes according to superannuation law and binding nominations.

For people with complex family structures or specific bequest intentions, keeping wealth outside super sometimes provides greater control. Adult children typically pay 15% tax plus Medicare levy on super death benefits, which factors into estate planning analysis.

Do You Need Access or Have Alternative Uses?

Money contributed to super becomes preserved, subject to standard access rules. If you're 55-59 and still working, you generally can't access this money until preservation age. For someone who downsizes at 57 but plans to work until 65, this creates an eight-year accessibility gap.

Alternative uses of sale proceeds include: investing outside super with greater flexibility, paying down debt to improve retirement cash flow, funding future aged care accommodation deposits (RADs), making living inheritances to children, or making regular contributions over time rather than one large contribution. The optimal choice depends on your complete financial picture.

Eligibility Requirements: Can You Make Downsizer Contributions?

Age and Timing: You must be 55+ when making the contribution, within 90 days of receiving sale proceeds (typically settlement date). This window is strict—missing it means losing eligibility.

Ownership: The dwelling must have been owned by you or your spouse for at least 10 years continuously. It must be in Australia and eligible for at least partial CGT main residence exemption (meaning it was your home at some point).

Sale Requirements: A valid contract and completed sale required. Gifting or transferring to trusts doesn't qualify. Each eligible spouse can contribute up to $300,000, with couples able to split contributions unevenly, but the combined total cannot exceed the total sale proceeds.

One Contribution Per Person: You can only make one downsizer contribution per eligible home sale in your lifetime. Amounts don't carry forward.

Independence from Other Caps: Downsizer contributions don't count toward concessional ($30,000) or non-concessional ($120,000) caps. You can make them even with super balances above $2.0 million or after exceeding other caps. No work test required.

Notification: Your super fund must receive the approved ATO form before or when you contribute. Keep thorough documentation—contract, settlement statement, ownership evidence.

When Downsizer Contributions Work Well: Scenarios

Different circumstances lead to different conclusions about downsizer contributions. These scenarios illustrate situations where the strategy typically adds value.

Scenario 1: High-Income Earners Approaching Retirement

Margaret and Paul, both 64, own their Sydney home valued at $1.8M. Still working earning $180K each, with combined super at $850K. Retiring at 67, purchasing smaller property for $950K.

The $850K property difference provides substantial funds. High incomes mean no Age Pension regardless, so assets test doesn't constrain decisions. By each making $300K downsizer contributions ($600K total), they boost combined super to $1.45M while retaining $250K outside for contingencies. Can still make regular contributions in remaining working years.

Why it works: No Age Pension impact, well below transfer balance cap, maximizing tax-effective accumulation during high-income years, preservation not an issue as still working.

Scenario 2: Estate Equalization
David, 66, widower with $1.2M super, three adult children. Melbourne home worth $1.1M, downsizing to $650K unit.

With $450K from sale, David's concerned about estate equality. By contributing $300K to super (balance becomes $1.5M), with $150K remaining outside, each child receives approximately $550K with more evenly distributed tax burden. Remaining funds provide immediate access for travel, health, or helping children.

Why it works: Estate planning balance, no Age Pension impact, adequate accessible funds retained.

Scenario 3: Overcoming Balance Restrictions
Jenny, 69, has $1.85M super. Selling Brisbane home for $780K, buying unit for $480K.

Jenny cannot make non-concessional contributions due to balance exceeding $2.0M. Downsizer contributions exist outside these restrictions—she can add $300K despite high balance. Though this pushes close to her transfer balance cap, she values maximum tax-effective retirement income. Remaining $300K provides accessible funds.

Why it works: Overcomes contribution restrictions, maximizes tax-effective environment, provides outside-super flexibility.

When Downsizer Contributions May Not Make Sense

Age Pension Entitlement Risk
Robert and Linda, 67, Adelaide home worth $620K, downsizing to $420K unit. Combined super $280K, receiving part Age Pension.

Contributing $200K would increase assessable assets from $280K to $480K—approaching the $481,500 homeowner couple threshold (from 20 September 2025) where Age Pension reduces. Their current part Age Pension (~$18K annually combined) over 10-15 years exceeds likely gains from $200K in super. They keep proceeds outside super, maintaining pension entitlement.

Why it doesn't work: Age Pension loss exceeds super tax benefits.

Premature Lock-In
Tom, 58, selling Perth home ($850K) for smaller property ($600K). Working until 65, super at $520K.

Contributing $250K locks funds until at least 60, with seven more working years ahead. Faces potential business opportunities, aging parents may need support, children approaching university. Values flexibility during unpredictable 50s over tax benefits in super.

Why it doesn't work: Long period until retirement, life circumstances uncertain, flexibility outweighs tax benefits.

Estate Planning Complexity
Anne, 71, $450K super, selling Canberra home ($740K) for retirement living ($240K). Two children from first marriage, partner has three children.

Contributing $300K complicates carefully structured estate planning. Will specifies certain assets to children, others to partner. Super sits outside will and distributes by superannuation law. Children would pay tax on super death benefits. Keeps $500K outside super for clear testamentary control.

Why it doesn't work: Estate complexity, desire for certainty, tax treatment doesn't align with objectives.

Alternative Approaches Worth Considering

Keeping proceeds outside super provides maximum flexibility, immediate access, clear estate treatment, and may preserve Age Pension. Tax-effective structures (investing in lower-income spouse's name, franked dividends, gradual capital gains) can provide reasonable tax outcomes without super's restrictions.

Regular contributions over time rather than one large downsizer contribution spreads tax benefits and maintains flexibility. Contributing $30K annually via salary sacrifice over five years provides similar tax benefits to a $150K downsizer contribution but can be adjusted if circumstances change.

Debt reduction using sale proceeds can provide certainty and improved retirement cash flow. For some, entering retirement debt-free outweighs accumulating additional super.

Aged care planning: Retaining capital outside super to fund future RADs ($350K-$700K+) preserves access. RADs are exempt from the Age Pension means test but are included in the aged care means assessment (which determines aged care fees).

Combination approaches often work best: contributing part to super while retaining part outside, one spouse contributing while other keeps funds accessible, or combining downsizer contributions with living inheritances to serve multiple objectives.

Discussion Points for Your Adviser

Age Pension modeling: If eligible for Age Pension now or in future, your adviser can model how contributions affect entitlement over 10-20 years, including timing considerations and deeming rate impacts.

Transfer balance cap and tax planning: For substantial balances, assess current cap usage, how contributions interact with retirement phase transfers, and whether alternative wealth structures make sense given cap constraints.

Estate planning integration: Discuss how contributions affect overall estate structure, death benefit nominations alignment with will, tax treatment to various beneficiaries, and whether testamentary trusts or other structures better serve objectives.

Cash flow and accessibility: Assess how much capital you need outside super, whether your age creates accessibility concerns, alternative contribution strategies providing more flexibility, and transition to retirement options.

Tax effectiveness: Examine comparative tax outcomes inside vs outside super over life expectancy, whether your marginal rate favors super or other structures, CGT implications, and whether contribution splitting with spouse creates better outcomes.

Conclusion: A Powerful Tool Requiring Careful Analysis

Downsizer contributions represent one of the most significant super concessions available to Australians over 55. The ability to contribute up to $300,000 per person regardless of other caps creates substantial opportunities for appropriate situations.

Yet the strategy's power doesn't make it universally beneficial. Age Pension impact often drives decisions for modest-wealth individuals—preserving pension frequently outweighs super tax benefits. Transfer balance cap considerations matter for high-balance individuals—adding to super near the cap provides diminishing benefits. Estate planning complexity deserves equal weight to accumulation benefits. Flexibility and accessibility carry real value, particularly years from retirement.

Your adviser can provide modeling specific to your circumstances, showing comparative outcomes across different strategies over realistic timeframes. The goal isn't maximizing super balance—it's creating retirement security, flexibility, and peace of mind using tools that best serve your objectives. For some, downsizer contributions are exactly right. For others, alternatives serve better.

Understanding strategic questions, eligibility requirements, and trade-offs positions you to have informed discussions about whether downsizer contributions align with your retirement vision.

References

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3. *Services Australia. "Income and assets tests for Age Pension." Australian Government. Accessed January 2026.*
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Q&A: Ask a Question

Question 1

I'm still working part-time while receiving the Age Pension. How does the Work Bonus help me keep more of what I earn?

The Work Bonus is designed to encourage older Australians to stay in the workforce by reducing the amount of employment income that counts towards the Age Pension income test. Under current rules, you can earn up to $300 per fortnight from employment before it affects your pension – and this is on top of the standard income-free area.

If you don't use the full $300 in a given fortnight, the unused portion accumulates in what's called your Work Bonus balance, up to a maximum of $11,800. New Age Pension recipients also start with a $4,000 credit in their balance. This means if you take on occasional or seasonal work, you may be able to earn more in certain periods without it reducing your pension, as long as you have available balance to offset it.

It's worth noting that the Work Bonus only applies to employment income – it doesn't cover investment income, rental income, or super pension payments. Understanding how the Work Bonus interacts with your other income sources can help you make the most of working in retirement without unnecessarily reducing your pension. Your adviser can help model how part-time work might affect your overall position.

Question 2

I've seen TPD insurance described as 'own occupation' or 'any occupation'. What's the difference and why does it matter?

The difference comes down to how the insurer defines "totally and permanently disabled" – and it can significantly affect whether a claim is successful.

With an own occupation definition, you may be eligible for a payout if you're unable to return to the specific job you were doing before becoming disabled, even if you could technically do other types of work. For example, a tradesperson who injures their back and can no longer do physical labour might still qualify, even if they could work in an office role.

With an any occupation definition, the test is stricter. You would need to demonstrate that you're unable to work in any job suited to your education, training, or experience – not just your previous role. This makes it harder to meet the definition and successfully claim.

It's important to know that TPD insurance held through superannuation typically only offers the any occupation definition. If you want own occupation cover, you generally need to hold it outside of super, which usually comes at a higher premium. Reviewing your policy definitions – especially if you work in a physically demanding or highly specialised role – can help ensure you have the right level of protection. Your adviser can help you understand your current cover and whether any adjustments are worth considering.

Question 3

I'm in my early 40s and wondering whether I should focus on paying off my mortgage faster or putting extra into super. How do I decide?

This is one of the most common financial planning questions, and there's no single right answer – it depends on your goals, timeline, and comfort with risk.

Paying down your mortgage faster provides guaranteed savings equal to your interest rate, reduces your overall debt, and brings the peace of mind of owning your home outright sooner. If your mortgage rate is relatively high or you prefer certainty, prioritising the home loan can make a lot of sense.

On the other hand, contributing extra to super offers significant tax advantages. Salary sacrifice or personal deductible contributions are taxed at just 15%, which for most people is well below their marginal tax rate. Over a long investment horizon, this tax-effective compounding can build substantial wealth. The trade-off is that super is locked away until you reach preservation age (60 for most people), so you lose access to those funds in the short term.

For many people in their 40s, a combination of both strategies works well – maintaining steady progress on the mortgage while also taking advantage of super's tax benefits during peak earning years. Your adviser can help you model the trade-offs based on your income, loan size, and retirement goals.

With all these topics, there is no single "right" choice. Your personal situation matters, and you should seek advice from a licensed financial adviser to understand what is most appropriate for you.