

Age Pension & Aged Care Means Test Reference Manual for Financial Advisers

2026 Reform Framework · Rate Schedule Expiry: 30 June 2026

Vela Calculation Manual · Version: 2026 Dual-Track Reform

Vela

Foreword

This manual sets out, in plain professional language, the calculation framework used to determine a client's annual Age Pension entitlement and their projected residential aged care fees under the 2026 reform settings. It is intended as a desk reference for financial advisers and paraplanners specialising in aged care, preparing Statements of Advice or modelling client scenarios.

Every government-mandated rate, threshold and taper applied in the calculations is reproduced in full. The structure mirrors the order in which a client's position is assessed: statutory inputs first, then eligibility classification, then the Age Pension means tests, then the aged care fee schedule, then the treatment of annuity products and CarePlus, then tax considerations, and finally the principles applied when optimising a Refundable Accommodation Deposit.

Important: All rates in this manual apply to the period ending 30 June 2026. A refresh of the underlying rate schedule is required at the next indexation cycle.

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Part 1 — Statutory Rates, Thresholds and Tapers

The figures below are the single source of truth for every dollar amount that flows through the calculations. They are drawn directly from the published rate schedule and apply until 30 June 2026.

1.1 Maximum Age Pension Rates (annual)

Component	Description & Value
Maximum Age Pension — Single	\$31,223.40 per annum, inclusive of the Pension Supplement and Energy Supplement.
Maximum Age Pension — Couple (combined)	\$47,070.40 per annum combined. Halved to \$23,535.20 to derive the per-person entitlement for standard couples.

1.2 Asset Test — Lower Thresholds (Full Pension)

Assets at or below these levels attract the full pension. No reduction applies.

Component	Description & Value
Single Homeowner	\$321,500 — full pension threshold.
Single Non-Homeowner	\$579,500 — full pension threshold.
Couple Homeowner (combined)	\$481,500 — also applied to Illness-Separated couples.
Couple Non-Homeowner (combined)	\$739,500 — full pension threshold.

1.3 Asset Test — Upper Cut-Off Thresholds (Reference Only)

Component	Description & Value
Single Homeowner cut-off	\$722,000.
Single Non-Homeowner cut-off	\$980,000.
Couple Homeowner cut-off (combined)	\$1,085,000.
Couple Non-Homeowner cut-off (combined)	\$1,343,000.

Note: These cut-off figures are retained for reference and disclosure only. The taper calculation reduces the entitlement to zero of its own accord once assets exceed the cut-off. No separate gate is needed.

1.4 Asset Test — Taper Rates

Component	Description & Value
Single fortnightly taper (informational)	\$3.00 per fortnight per \$1,000 of excess assets.
Couple fortnightly taper (informational)	\$1.50 per fortnight per \$1,000 of excess assets.
Asset block size	\$1,000 — excess assets are divided into whole \$1,000 blocks. Partial blocks are disregarded.
Annual single taper	\$78.00 per annum per \$1,000 of excess assets (= \$3.00 × 26 fortnights).
Annual couple taper	\$39.00 per annum per \$1,000 of excess assets (= \$1.50 × 26 fortnights).

1.5 Income Test

Component	Description & Value
Single income free area	\$218.00 per fortnight — pension reduction commences above this level.
Couple income free area (combined)	\$380.00 per fortnight.
Income taper — singles and mixed-eligibility	50 cents per dollar of excess income, annualised.
Income taper — standard couples	Each partner's pension reduces by 25 cents for every dollar of combined excess income above the free area.
Work Bonus	\$300.00 per fortnight (\$7,800 per annum) of employment income is disregarded before the income test applies. Operates separately for client and partner.

1.6 Deeming Rates and Thresholds

Deeming applies to financial assets: cash, listed shares and superannuation (accumulation and account-based pension).

Component	Description & Value
Single deeming threshold	\$64,200 — financial assets up to this amount are deemed to earn the lower rate.
Couple deeming threshold (combined)	\$106,200 — equivalent threshold for couples.
Lower deeming rate	1.25% — applied to financial assets at or below the threshold.
Upper deeming rate	3.25% — applied to financial assets above the threshold.

1.7 Aged Care — Accommodation

Component	Description & Value
Maximum Permissible Interest Rate (MPIR)	7.96% — the annual rate used to calculate the Daily Accommodation Payment on the unpaid portion of a RAD.
Maximum Accommodation Supplement (MAS)	\$72.30 per day — the maximum government subsidy paid to a facility toward a resident's accommodation costs. Reference figure; not a client fee.
Family home cap (aged care)	\$214,884 — the maximum value of the family home counted as an aged care asset. If the home is worth more, the assessed value is capped here.

1.8 Aged Care — Daily Fee Caps

Component	Description & Value
Basic Daily Fee (BDF)	\$66.80 per day — payable by every resident. Set at 85% of the maximum basic rate of Age Pension (single), excluding supplements.
Hotelling Supplement Contribution (HSC) — daily cap	\$22.15 per day — covers hotel-style services: meals, laundry, cleaning and utilities.
Non-Clinical Care Contribution (NCCC) — daily cap	\$107.32 per day — covers personal care: assistance with showering, dressing, eating and mobility.
Lifetime cap on NCCC	\$137,917.01 — once cumulative NCCC payments reach this amount, no further NCCC is payable. A separate four-year time limit applies: the NCCC ceases after four years of payment, even if the lifetime cap has not been reached. Both limits must be considered.

1.9 Aged Care — Means Test Asset Tiers

The asset tiers below underpin the HSC and NCCC calculations. Under the November 2025 reform framework, both the HSC and the NCCC share the same asset-free area of \$64,500. Above that threshold, the HSC levy rate is 17.5% and the NCCC levy rate is 7.8%. Tiers 2, 3 and 4 are documented here for reference and disclosure purposes.

Component	Description & Value
HSC asset-free area (Tier 1)	\$64,500 — assets at or below this level are disregarded for the Hotelling Supplement Contribution.
Tier 1 — upper boundary	\$214,884.
Tier 2 — lower threshold	\$258,000.
Tier 2 — upper boundary	\$361,366.66.
Tier 3 — lower threshold	\$536,384.
NCCC asset-free area	\$64,500 — assets below this level attract no NCCC asset component. This is the same as the HSC asset-free area under the November 2025 reform framework.
Annual asset levy — Tier 1 (HSC)	17.5% applied to per-person aged care assets above \$64,500.
Annual asset levy — NCCC	7.8% applied to per-person aged care assets above \$64,500 (same asset-free threshold as the HSC).

Note: Under the November 2025 reform framework, the NCCC asset-free area is \$64,500 — the same as the HSC. This means every resident with per-person aged care assets above \$64,500 has some exposure to the NCCC asset levy. The Fourth asset threshold (\$536,384) remains in the schedule as a reference tier but does not define the NCCC free area.

1.10 Aged Care — Means Test Income Tiers

Component	Description & Value
Income free area — Single	\$35,313.20 per annum.
Income free area — Couple (Illness-Separated)	\$34,585.20 per annum.
First income threshold — Single	\$87,947.60 per annum.
First income threshold — Couple (Illness-Separated)	\$87,219.60 per annum.
Second income threshold — Single/Illness-Separated	\$101,105.00 per annum.
Third income threshold — Single/Illness-Separated	\$117,230.20 per annum.
Fourth income threshold — Single	\$141,252.80 per annum.
Fourth income threshold — Couple (Illness-Separated)	\$138,340.80 per annum.
Income taper rate	50% — income above the relevant free area is assessed at 50 cents in the dollar for both HSC and NCCC.

Part 2 — Pre-Calculation Checks

Three preparatory checks are performed before any dollar figure is computed. Together they confirm that the client's date of birth is valid, identify their pension age, calculate their current age, and standardise the marital status descriptor used by the means tests.

2.1 Date of Birth Validation

The client's date of birth is normalised to a calendar date. Where no date of birth is provided, the field is treated as missing and downstream age-eligibility tests will not certify the client as having reached pension age.

2.2 Age Pension Age

Pension age is determined by the client's date of birth in accordance with the legislated phase-in schedule:

Component	Description & Value
Born before 1 July 1952	Pension age: 65.
Born 1 July 1952 to 31 December 1953	Pension age: 65 years and 6 months.
Born 1 January 1954 to 30 June 1955	Pension age: 66.
Born 1 July 1955 to 31 December 1956	Pension age: 66 years and 6 months.
Born on or after 1 January 1957	Pension age: 67.

2.3 Current Age

Current age is calculated by reference to today's date, with one year deducted where the client's birthday has not yet occurred in the current calendar year. Where no valid date of birth is held, the age-eligibility gate will withhold any payment.

2.4 Marital Status Mapping

The user-facing marital status options are translated into four categories used by the means tests:

Component	Description & Value
Single	Treated as Single.
Partnered	Treated as Couple.
Partnered — One Eligible	Treated as Couple where only one partner is eligible (mixed eligibility). Income taper is 50 cents per dollar.
Partnered — Illness Separated	Treated as Couple separated due to illness. Each partner assessed at the single pension rate, but couple asset thresholds apply.

Part 3 — The Age Pension Calculation

The Age Pension result is the central outcome of the calculation. It is determined in five sequential stages, beginning with client classification and ending with a single annual entitlement figure.

Stage 1 — Client Classification

The marital status descriptor sets classification flags that govern every subsequent branch of the calculation:

- ****Single**** — the client is unpartnered.
- ****Couple**** — the client is partnered (including illness-separated and mixed-eligibility households).
- ****Illness-separated**** — each partner is assessed at the single pension rate while retaining couple asset thresholds.
- ****Mixed-eligibility**** — one partner has reached pension age; the other has not. The income taper applied is the singles rate of 50 cents per dollar.

Stage 2 — Net Assessable Assets

The calculation aggregates every assessable asset held by the client and partner (where relevant) and subtracts applicable liabilities.

Assets included

- Cash holdings — client, partner and joint accounts.
- Listed shares — client, partner and joint.
- Superannuation — accumulation balances are only counted if the owner has reached Age Pension age (67). Account-based pensions are always assessable regardless of age.
- Personal assets — household furniture, motor vehicles, boats and similar chattels.
- Investment property — the assessed value of any non-principal-place-of-residence real estate.
- Annuity asset value — calculated separately under the annuity rules in Part 5.
- Partner annuity — any separately reported partner annuity value.
- CarePlus assessed asset — calculated separately under the CarePlus rules in Part 6.

Deductions

- Investment liabilities — loans secured against investments.
- Other liabilities.

Note: The mortgage on the principal residence is tracked separately for aged care purposes and is not deducted from the pension asset base.

Formula: *Net Assessable Assets = total assessable assets – non-mortgage liabilities, floored at zero.*

Stage 3 — The Asset Test

The asset test asks: given the client's net wealth, what level of pension is permitted?

Step A — Identify the Lower Threshold

Select the applicable full-pension threshold from the table in Section 1.2, based on the client's marital status and homeowner flag.

Step B — Calculate Excess Assets

Formula: *Excess assets = Net Assessable Assets – applicable threshold, floored at zero.*

Where assets fall below the threshold, the full pension applies and Steps C and D produce a zero reduction.

Step C — Calculate the Annual Asset-Test Reduction

The excess is divided into whole \$1,000 blocks; partial blocks are disregarded. Each whole block reduces the annual pension by the applicable taper.

Formula: *Asset-test reduction = floor(Excess assets ÷ 1,000) × annual taper rate (\$78 single / \$39 couple).*

Step D — Maximum Pension for This Client

Component	Description & Value
Single or Illness-Separated	\$31,223.40 per annum (single rate per person).
Standard Couple (per person)	\$23,535.20 per annum (\$47,070.40 combined, halved).

Step E — Apply the Floor

Formula: *Pension allowed by asset test = maximum pension – asset-test reduction, floored at zero.*

Note: When excess assets are large enough that the reduction exceeds the maximum pension, the zero floor naturally eliminates the entitlement. The cut-off thresholds in Section 1.3 do not need to be applied as a separate gate.

Stage 4 — The Income Test

The income test asks the same question from the income side: given the client's earning capacity, what level of pension is permitted?

Step A — Deemed Income from Financial Assets

Centrelink does not assess actual earnings on financial assets; it deems them to earn at set rates. The deeming base is: cash + listed shares + superannuation.

Formula: *If deeming base ≤ threshold → deemed income = base × 1.25%. If deeming base > threshold → deemed income = (threshold × 1.25%) + ((base – threshold) × 3.25%).*

Single threshold: \$64,200. Couple threshold (combined): \$106,200.

Step B — Employment Income (with Work Bonus)

The Work Bonus disregards \$300 per fortnight (\$7,800 per annum) of employment income per person before the income test applies. Only the excess is assessed. The Work Bonus operates independently for client and partner.

Step C — Other Income and CarePlus Income

All other income is added at face value: investment income, rental income, annuity assessable income (after the deductible component — see Part 5), CarePlus assessable income (see Part 6), and partner income.

Step D — Apply the Free Area and Taper

Component	Description & Value
Singles free area	\$218.00 per fortnight (\$5,668 per annum).
Couples free area (combined)	\$380.00 per fortnight (\$9,880 per annum).
Singles and mixed-eligibility couples	50 cents per dollar of excess income, annualised.
Standard couples	25 cents per dollar of combined excess income per partner, annualised.
Formula: <i>Income-test reduction = (total income – free area) × income taper, annualised. Pension allowed by income test = maximum pension – income-test reduction, floored at zero.</i>	

Stage 5 — The Final Pension

The final pension is determined by the **lower** of the two test outcomes. This is the governing test principle.

Age Eligibility Gate

Component	Description & Value
Current age ≥ pension age	Theoretical pension is paid.
Current age < pension age	Pension is set to nil. Client is ineligible — below pension age.

Final Status Labels

Component	Description & Value
Final pension ≤ \$1	Not Eligible (Means) — means tests have eliminated the entitlement.
No reduction applied	Full Pension.
Some reduction applied	Part Pension.

Part 4 — The Aged Care Calculation

The aged care section runs after the Age Pension result has been finalised. It addresses a different question: what will this resident pay each day in residential aged care, and what will the cumulative cost be over the projected stay? Where the calculation's implementation differs from the full regulatory framework, this is noted explicitly.

Stage 6 — Aged Care Asset Base

The aged care asset base differs from the pension asset base in two respects, both unique to the aged care means test.

Addition 1 — The Refundable Accommodation Deposit (RAD)

The lump sum paid on entry to the facility is exempt from the pension asset test but is added back into the asset base for aged care means testing.

Addition 2 — The Family Home (Capped)

The family home may be partially included depending on residency status:

Component	Description & Value
Partner remains in the home	\$0. The home is fully protected while the partner resides there.
Home is vacant or has been sold	The lesser of net home equity and \$214,884 (the family home cap) is included.
Family home cap	\$214,884 — the maximum home value assessed as an aged care asset.

Per-Person Split for Couples

Aged care assessments are conducted per person. For couples, total household aged care assets are halved to derive each partner's assessed position.

Formula: *Aged care asset base (per person) = (Net Assessable Assets + RAD paid + capped home equity) ÷ 2 [couples only].*

Stage 7 — Aged Care Income Base

Aged care income is assessed per person and is constructed from three components.

Component A — Ordinary Income

Includes employment income, the client's Age Pension, the partner's Age Pension (calculated dynamically — see note below), and annuity assessable income. For couples, the combined figure is halved.

Note: Dynamic partner pension: the partner's pension is not a static input. It is recalculated based on the pension result just determined for the main client. Where the partner is flagged as eligible and the main client's pension is greater than zero, the same pension amount is attributed to the partner. Movements in one person's asset position therefore flow through to both sides of the household income figure.

Component B — Deemed Investment Income

The same deeming logic applied in the pension income test is applied here, on a per-person asset base (total household financial assets halved for couples).

Component C — Total Aged Care Income

Formula: *Total aged care income = ordinary income + deemed investment income.*

Stage 8 — Hotelling Supplement Contribution (HSC)

The HSC funds hotel-style services: meals, laundry, cleaning and utilities. It is the lighter of the two means-tested contributions.

Asset Component

Component	Description & Value
Asset free area	\$64,500 — assets at or below this level contribute nothing to the HSC.
Annual asset levy	17.5% applied to per-person aged care assets above \$64,500.

Income Component

Component	Description & Value
Income free area — Single	\$35,313.20 per annum.
Income free area — Couple, illness separated (single rate)	\$34,585.20 per annum.
Income taper rate	50% of aged care income above the relevant free area, calculated on an annual basis.

Daily HSC

Formula: *Annual HSC = asset levy (17.5% × assets above \$64,500) + income levy (50% × income above free area). Daily HSC = annual HSC ÷ 365. Cap: \$22.15 per day. The result will never exceed this maximum.*

Stage 9 — Non-Clinical Care Contribution (NCCC)

The NCCC funds personal care including assistance with showering, dressing, eating and mobility. Under the 2026 reforms, the asset-free threshold is materially lower than prior rules — meaning more residents contribute to their personal care costs.

Asset Component

Component	Description & Value
Asset free area	\$64,500 — assets below this level attract no NCCC asset component. This is the same threshold as the HSC asset-free area.
Annual asset levy	7.8% applied to per-person aged care assets above \$64,500.

Income Component

Component	Description & Value
Fourth income threshold — Single	\$141,252.80 per annum.

Component	Description & Value
Fourth income threshold — Couple (Illness-Separated)	\$138,340.80 per annum.
Income taper rate	50% of aged care income above the relevant free area.

Daily NCCC, Daily Cap and Lifetime Cap

Formula: Annual NCCC = asset levy (7.8% × assets above \$64,500) + income levy (50% × income above free area). Daily NCCC = annual NCCC ÷ 365. Capped at \$107.32 per day. Projected NCCC = daily NCCC × 365 × years in care, subject to: (a) daily cap \$107.32; (b) lifetime cap \$137,917.01; (c) four-year time limit — see note below.

Important: Once cumulative NCCC payments reach \$137,917.01, the resident pays no further NCCC. A separate four-year time limit also applies: the fee ceases after a resident has paid it for four years, even if the lifetime cap has not been reached. Where the projected stay is four or more years, the NCCC cost should be modelled over four years only, regardless of the lifetime cap position. Both caps must be tested; whichever is triggered first governs.

Note: Four-Year Time Limit: This four-year rule is separate from and additional to the \$137,917.01 lifetime cap. It is sourced from footnote 3 of the official Schedule of Fees and Charges for Residential Care (20 March 2026). Advisers must apply it in projections for any client with a planned stay of four years or longer.

Stage 10 — Daily Accommodation Payment (DAP)

Where a resident pays only part of the room price as a RAD lump sum, the unpaid balance accrues interest at the MPIR. This daily interest charge is the DAP.

Component	Description & Value
MPIR	7.96% per annum — the annual rate applied to the unpaid room balance.
Unpaid RAD	Room price less the RAD paid, floored at zero.
<p>Formula: $DAP \text{ (daily)} = (\text{Room price} - \text{RAD paid}) \times 7.96\% \div 365$.</p>	

Where the RAD is paid in full on entry, the unpaid balance is zero and the DAP is therefore zero. Each additional dollar of RAD paid reduces the ongoing DAP by 7.96 cents per annum.

DAP Projection (Compounded)

The calculation projects the total DAP cost over the planned stay using a 3% annual escalation assumption, compounded annually:

Formula: $DAP \text{ Total} = DAP_daily \times 365 \times ((1.03 \wedge \text{years} - 1) \div 0.03)$.

Important: Under the new Aged Care Act, DAPs are statutorily indexed twice a year in line with CPI. The 3% escalation used in this projection models this mandatory legislative indexation over the planned stay.

Stage 11 — RAD Retention

Facilities retain 2% of the RAD per annum, capped at five years (a maximum of 10% in total), as a non-refundable amount.

Formula: $Retention = RAD\ paid \times 2\% \times \min(\text{years in care}, 5)$.

Note: This formula assumes a static RAD balance. Legislatively, retention is calculated daily on the actual RAD balance. If a client elects to draw down their DAP or other fees from their RAD, their balance will decrease, which proportionally reduces the dollar value of the 2% retention fee.

Stage 12 — Grand Total Cost Projection

The calculation consolidates daily fees, lifetime contributions and accommodation costs into a single projected total for the planned length of stay.

Component	Description & Value
DAP total	Compounded projection of the daily DAP over the planned stay (3% annual growth).
Retention	$RAD\ paid \times 2\% \times \min(\text{years in care}, 5)$.
NCCC total	Projected lifetime NCCC, capped at \$137,917.01.
HSC + Basic Daily Fee	$(HSC\ daily + \$66.80) \times 365 \times \text{years in care}$.
<p>Formula: $Grand\ total = DAP\ total + retention + capped\ NCCC + (HSC\ daily + \\$66.80\ BDF) \times 365 \times \text{years in care}$.</p>	
<p>Important: The grand total is a planning projection, not a guarantee. It assumes that fees, the MPIR and the resident's circumstances remain constant for the projected length of stay. Present it to clients as a planning tool only.</p>	

Part 5 — Treatment of Annuity Products

Annuity products are valued and assessed for income separately, because the Centrelink-assessed asset value and the assessable income each year are not the same as the contractual cash flows. The outputs feed into both the asset test and the income test.

5.1 Asset Value of an Annuity

Fixed-Term Annuities

A fixed-term annuity depletes its capital over the term. The asset value at any point in time is the amount of capital not yet returned to the client.

Component	Description & Value
Residual Capital Value (RCV)	Purchase price × contractual residual percentage. This is the guaranteed remainder at the end of the term.
Annual capital return	$(\text{Purchase price} - \text{RCV}) \div \text{term}$.
Current asset value	The current asset value is the greater of two figures: RCV or purchase price – (annual capital return × years held)

Lifetime Annuities

Centrelink uses a flat-factor approach for lifetime annuities.

Component	Description & Value
Standard factor	60% of the purchase price — applied in most circumstances.
Reduced factor (eligible)	30% of the purchase price — available where the client is over 84 years of age AND has held the annuity for five or more years.
Asset value	Purchase price × applicable factor (60% or 30%).

5.2 Assessable Income from an Annuity

Not all annuity payments count as assessable income; part of each payment is treated as a return of the original capital and is disregarded.

Lifetime Annuities

Formula: *Assessable income = annual payment × 60%. The remaining 40% is treated as a return of capital.*

Fixed-Term Annuities

Formula: *Deductible amount = $(\text{purchase price} - \text{RCV}) \div \text{term}$. Assessable income = annual payment – deductible amount, floored at zero.*

Only the earnings component above the capital return is counted as income.

Part 6 — CarePlus by Challenger

This section covers the social security and aged care treatment of CarePlus — a combined annuity and insurance product issued by Challenger Life Company Limited. It explains the product structure, the Centrelink assessment rules, the pre-drain mechanism, the tax treatment of annuity payments, and the interaction with aged care fee calculations.

6.1 What CarePlus Is

CarePlus is designed for people receiving, or planning to receive, Government-subsidised aged care services. It provides fixed monthly payments for the lifetime of the person in care and returns 100% of the total amount invested to nominated beneficiaries or the estate on death. It is issued by Challenger Life Company Limited (ABN 44 072 486 938, AFSL 234670) and regulated by APRA.

CarePlus is comprised of two distinct financial products that must be purchased together:

- **CarePlus Annuity** — pays guaranteed income for life, regardless of how long the client lives or how investment markets perform. It has a withdrawal value and a death benefit for a period based on the client's life expectancy.
- **CarePlus Insurance** — a single-premium lifetime insurance policy. On death, it tops up the annuity death benefit so that the total amount paid to beneficiaries equals 100% of the original investment.

The minimum total investment is \$10,000 (combined). Only non-superannuation money may be used.

6.2 The CarePlus Annuity

Component	Description & Value
Payment frequency	Monthly, for the lifetime of the client. Fixed and guaranteed regardless of market performance.
Withdrawal period	Exists for a period based on the client's life expectancy. Withdrawal is possible during this window; monthly payments cease on withdrawal.
After withdrawal period	No further withdrawal value. Monthly payments continue for life.
Death benefit (Annuity)	Equals the maximum withdrawal value at the time of death, if death occurs within the withdrawal period. Nil from the annuity component if death occurs outside the period.
Tax treatment	Payments are split into a deductible (capital return) component and an assessable component. See Section 6.6.

6.3 The CarePlus Insurance

Component	Description & Value
Premium	Single premium paid at inception, included in the total CarePlus investment amount.
Sum insured	Equals the difference between the total CarePlus investment and the annuity death benefit. Tops up the death benefit to 100% of total investment.
Cover commencement	Immediate on acceptance of application. No medical examination required.

Component	Description & Value
Death benefit (Insurance)	Paid to nominated beneficiaries or estate. Together with the annuity death benefit, equals 100% of the total CarePlus investment.
Assessable income	Nil. The insurance component produces no assessable income.
<p>Note: Beneficiary nominations for CarePlus are binding on Challenger Life. This provides estate planning certainty outside the probate process. If no beneficiary is nominated, the death benefit is paid to the estate.</p>	

6.4 Asset Test Treatment

CarePlus receives concessional Centrelink asset treatment because it is a lifetime annuity combined with insurance. The annuity and insurance components are assessed separately.

Annuity component

Component	Description & Value
Standard assessed value	60% of the annuity purchase price. This rate applies for at least five years from purchase, or until the client turns 85 — whichever is longer.
Reduced assessed value	30% of the annuity purchase price. Applies once the client is over 84 AND has held the annuity for five or more years.
Instant asset reduction	The difference between the purchase price and the assessed value. For a new purchase at the standard 60% factor: 40% of the purchase price is immediately removed from the assessable asset base.

Insurance component

Component	Description & Value
Client at or over pension age at purchase	Assessed at the greater of the insurance premium paid or the termination (surrender) value. At inception, the termination value is always lower than the premium paid, so the assessed value equals the premium.
Client below pension age at purchase	Assessed at the termination value only. At inception, the premium is used as a conservative proxy pending availability of the Challenger termination value schedule.
<p>Formula: <i>Total CarePlus assessed asset = (annuity purchase price × 60%) + insurance assessed value. Instant asset reduction = total CarePlus investment – total CarePlus assessed asset.</i></p>	

6.5 Income Test Treatment

Only part of the CarePlus income stream is assessable under the Centrelink income test.

Component	Description & Value
Annuity component	60% of the annual payment is assessable income. The remaining 40% is treated as a return of capital and is disregarded.
Insurance component	Nil. The insurance product produces no assessable income.
Formula: <i>CarePlus assessable income = annual CarePlus payment × 60%.</i>	

6.6 Pre-Drain Treatment

When a CarePlus purchase is modelled, the total investment amount leaves the client's assessable estate **before** Centrelink runs its calculations. This is not an exemption — the money has left the estate and is replaced by the CarePlus product, which has its own (lower) assessed values.

The drain is applied in the following order: cash first, then shares, then superannuation. The total amount drained equals the total CarePlus investment (annuity purchase price + insurance premium).

Formula: *Post-CarePlus cash = max(0, cash – CarePlus total). Post-CarePlus shares = max(0, remaining drain applied to shares). Post-CarePlus super = max(0, remaining drain applied to super).*

The net effect: a client who invests \$200,000 in CarePlus (say, \$150,000 annuity + \$50,000 insurance) sees \$200,000 leave the assessable asset pool, replaced by an assessed CarePlus asset of \$50,000 + \$150,000 × 60% = \$90,000 + \$50,000 = \$140,000. The instant reduction to assessable assets is \$60,000 (40% × \$150,000 annuity component).

6.7 Tax Treatment of CarePlus Annuity Payments

Regular payments from the CarePlus Annuity are split into two components for tax purposes.

Component	Description & Value
Deductible amount (non-assessable)	Represents the return of capital. Calculated as: annuity purchase price ÷ the client's life expectancy factor from the Australian Government Actuary (AGA) life tables at the age of purchase.
Assessable amount (taxable income)	The portion of each payment above the deductible amount. Subject to PAYG withholding tax, which Challenger remits to the ATO.
Formula: <i>Annual deductible amount = annuity purchase price ÷ life expectancy factor (from AGA tables at age of purchase). Assessable income = annual payment – deductible amount, floored at zero.</i>	

Example: A 78-year-old female who invested \$300,000 has a life expectancy factor of 11.7 years. Annual deductible = \$300,000 ÷ 11.7 = \$25,641. If annual payments are \$30,000, taxable income from CarePlus = \$30,000 – \$25,641 = \$4,359.

Note: The Centrelink income assessment (60% of payment) and the tax deductible amount (purchase price ÷ life expectancy) are different calculations. The 60% assessable figure applies for Centrelink purposes only. Tax is calculated on the actual deductible amount method described above.

6.8 CarePlus in the Aged Care Context

The CarePlus assessed asset and assessable income flow directly into both the Age Pension means tests and the aged care means tests in exactly the same way as any other assessable asset and income. After the pre-drain, the post-CarePlus asset base (which includes the assessed CarePlus product value) is used for all HSC, NCCC and pension calculations.

The practical result: investing in CarePlus typically increases the Age Pension entitlement (lower assessable assets) and may reduce both the HSC and NCCC contributions (lower assessed assets and income base). Advisers should model the before-and-after position using the full means test to quantify the impact in each client's circumstances.

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Part 7 — Tax Considerations

This section explains the tax calculations applied in the RAD optimisation and cash flow analysis. The calculation follows the strict ATO tax waterfall, applying offsets in the correct statutory sequence. The output is the client's net tax position and true after-tax cash flow.

7.1 Annuity Taxable Income

The taxable component of an annuity payment is calculated differently for fixed-term and lifetime annuities.

Fixed-Term Annuities

Formula: $\text{Annual deductible} = \text{purchase price} \div \text{term}$. $\text{Taxable income} = \text{annual payment} - \text{deductible}$, floored at zero.

Lifetime Annuities (including CarePlus)

Where no contractual term is specified, the deductible is calculated using the client's life expectancy factor from the Australian Life Tables (ALT), by age and sex at the time of purchase.

Formula: $\text{Annual deductible} = \text{purchase price} \div \text{ALT life expectancy factor (at age of purchase)}$. $\text{Taxable income} = \text{annual payment} - \text{deductible}$, floored at zero.

Note: Where the client's gender is unknown or cannot be identified, the calculation defaults to the female life expectancy factor. This is the conservative treatment, as it produces a longer deductible period and therefore lower taxable income — erring on the side of not over-stating the tax liability.

7.2 Key ALT Life Expectancy Factors

The table below shows selected life expectancy factors used for the annuity deductible calculation. These factors are sourced from the Australian Government Actuary life tables.

Component	Description & Value
Male, age 65	19.6 years
Male, age 70	15.6 years
Male, age 75	12.2 years
Male, age 78	10.2 years
Male, age 80	8.9 years
Male, age 85	6.4 years
Female, age 65	22.3 years
Female, age 70	18.0 years
Female, age 75	13.9 years
Female, age 78	11.7 years
Female, age 80	10.3 years
Female, age 85	7.4 years

7.3 The Income Tax Waterfall

The tax calculation follows the ATO waterfall in strict sequence. Each step feeds into the next.

Component	Description & Value
Step 1 — Gross Up	Assessable income = base income + cash dividends + franking credits. Apply deductions to arrive at taxable income.
Step 2 — Base Tax	Look up the marginal tax bracket. Tax = base amount for that bracket + (income over bracket floor × marginal rate).
Step 3 — LITO	Low Income Tax Offset is a non-refundable offset applied after base tax. Base tax after LITO cannot fall below zero. Any unused LITO is forfeited.
Step 4 — SAPTO	Seniors and Pensioners Tax Offset applied after LITO, also non-refundable. Applies to eligible clients (see Section 7.4).
Step 5 — Medicare Levy	Added after all offsets. Calculated at 2% of taxable income, with a phase-in range at the lower end for low-income earners and SAPTO-eligible clients.
Step 6 — Franking Credits	Refundable — can reduce total tax payable below zero, resulting in a refund.
True cash in hand	(Base income + cash dividends) – deductions – net tax position (after franking refund).

7.4 Key Offsets — LITO and SAPTO

Low Income Tax Offset (LITO)

LITO is a non-refundable offset available to lower-income residents. It reduces tax payable in tiers, phasing out progressively above the threshold (updated annually on 1 July).

Seniors and Pensioners Tax Offset (SAPTO)

SAPTO is available to qualifying seniors (generally Age Pension recipients or those of pension age). It is applied after LITO and is also non-refundable. Eligibility is flagged per client in the fact-find. SAPTO substantially reduces — or eliminates — tax payable for most pension-rate income levels.

The Medicare levy rules also differ for SAPTO-eligible clients: the lower exempt threshold and phase-in range are higher, reducing Medicare levy for those on modest incomes.

Part 8 — RAD Optimisation

The optimisation analysis does not compute fees. Its purpose is to identify the RAD payment amount that best balances aged care costs, pension entitlement and remaining liquidity for the client.

8.1 The Structural Tension

There is a structural tension in residential aged care funding. Paying a larger RAD reduces the daily DAP and so lowers ongoing fees — but it also depletes liquid assets. Lower assessable assets can lift the Age Pension entitlement (favourable), but the depletion of liquidity may leave the client cash-poor.

The objective of the optimiser is to identify the RAD level that strikes the most favourable balance between these competing forces.

8.2 Method

The optimiser tests every RAD value between the planned RAD and the client's fundable maximum, in increments of \$10,000. For each candidate, it performs the following steps:

- **Step 1** — Simulate the drawdown of liquid assets to fund the RAD (cash first, then shares, then super).
- **Step 2** — Run the full pension and aged care calculation on the post-RAD asset position.
- **Step 3** — Estimate the tax payable on the resulting income position. SAPTO is applied where the client is eligible.
- **Step 4** — Calculate net cash flow: total income received less tax less all aged care fees.
- **Step 5** — Score the scenario as: annual pension entitlement minus projected total aged care cost.

Note: The minimum liquid asset floor (\$64,500 by default) is always respected. The calculation will not propose a RAD that leaves the client with less than this amount in liquid assets, irrespective of the score.

8.3 Two Candidate Pools

Component	Description & Value
Primary pool (preferred)	Scenarios where net cash flow is non-negative AND remaining liquid assets meet or exceed the minimum liquidity buffer. The highest-scoring scenario in this pool wins.
Fallback pool	All other scenarios. The fallback is engaged only where the primary pool contains no candidates. The scenario with the highest net cash flow wins.

The optimiser returns a single dollar figure: the recommended RAD payment.

8.4 Impact of CarePlus on Optimisation

Where a CarePlus purchase is included in the scenario, the total CarePlus investment is drained from liquid assets before the optimisation begins. The optimiser will not propose a RAD that requires cash the client has already committed to CarePlus. CarePlus assets and income continue to flow through the means tests in the normal way during optimisation scoring.

Part 9 — One-Page Summary: The Flow of Money

The complete calculation flow, end to end. Use this as a quick-reference check before beginning any aged care modelling exercise.

Component	Description & Value
Step 1 — Load and Classify	Read the client profile. Classify as Single, Couple, Illness-Separated or Mixed-Eligibility. Note homeowner status.
Step 2 — CarePlus Pre-Drain	Where CarePlus is recommended, drain the total investment from liquid assets (cash → shares → super) before Centrelink assesses anything.
Step 3 — Aggregate Assets	Cash + shares + super + personal assets + investment property + annuity value + CarePlus assessed value – liabilities = Net Assessable Assets.
Step 4 — Asset Test	Identify lower threshold (\$321,500 / \$481,500 / \$579,500 / \$739,500). Deduct from Net Assessable Assets. Divide excess by \$1,000. Multiply by annual taper (\$78 or \$39). Deduct from maximum pension. Floor at zero.
Step 5 — Income Test	Deemed income + employment income (less Work Bonus) + other income + CarePlus income (60% of payment). Compare to free area. Apply taper. Deduct from maximum pension. Floor at zero.
Step 6 — Age Gate and Final Pension	Where client has reached pension age, final pension = lower of the two test outcomes. Where not, pension = nil.
Step 7 — Aged Care Asset Base	Net Assessable Assets + RAD paid + capped home equity (where home unprotected) = total household aged care assets. Halve for couples.
Step 8 — Aged Care Income Base	Pension + other income + partner pension (dynamic) + deemed returns = total aged care income.
Step 9 — HSC	17.5% of assets above \$64,500 + 50% of income above free area → ÷ 365 → cap at \$22.15 per day.
Step 10 — NCCC	7.8% of assets above \$64,500 + 50% of income above free area → ÷ 365 → cap at \$107.32 per day → apply lifetime cap of \$137,917.01 AND four-year time limit (whichever is reached first).
Step 11 — DAP	(Room price – RAD paid) × 7.96% ÷ 365. Total DAP projected using 3% annual escalation, compounded over the stay.
Step 12 — Grand Total	DAP (compounded) + retention (2% p.a. on RAD, capped 5 years) + capped NCCC + (HSC + \$66.80 BDF) × 365 × years in care.

Version: 2026 Dual-Track Reform · Rate Schedule Expiry: 30 June 2026

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