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## **Now you can use reverse mortgage to secure a disabled child's future**

5 September 2006

The Government has announced a new initiative that will assist families who wish to gift assets to secure the future of their child with severe disabilities.

According to Kate Anderson, Technical Services Manager Mariner Financial Limited "The new rules will allow parents or an immediate family member to contribute up to \$500,000 (indexed annually) into a trust (a special disability trust) for the future care of a child with severe disabilities. The Social Security pension would be unaffected by such gifting, provided certain requirements are met. This initiative will begin on 20 September 2006.

The new measure regarding special disability trusts, may make it possible for a single/couple on the Social Security age pension to access the equity in their home through a reverse mortgage and use the proceeds to secure a disabled child's future without being caught under the gifting rules.

### **Example case study**

Chris and Sarah, both aged 70 have paid off their home, which is now valued at \$550,000. They are in receipt of the full age pension. Their only other assets are a car and home and contents valued at \$20,000.

They have two children. Their youngest daughter Carla, aged 19 is severely disabled. She is in receipt of the disability support pension and is in full time care in an institution, she is unable to work.

Now that Chris and Sarah's income is low, they are unable to provide Carla with the extra financial support she needs for her ongoing care now and after they have passed away. They want to secure her future and proactively manage their estate planning concerns.

Chris and Sarah consider a reverse mortgage and discuss their options with their financial planner. They decide to borrow \$225,000 (LVR 25%) against the value of their property. To ensure that the borrowings against their property do not affect their age pension or Carla's disability pension they establish a special disability trust. Chris and Sarah become the trustees of the trust with Carla as the principal beneficiary. Their financial planner ensures that all the eligibility criteria have been met to set up the trust.

Chris and Sarah contribute the full \$225,000 into the trust for the purpose of meeting reasonable care and accommodation costs that are incurred now and in the future for Carla. This may include paying, on behalf of the principal beneficiary (Carla), trust expenses and any personal income tax associated with assessable income from the trust.

Chris and Sarah have made a contribution to the special disability trust that they control, therefore they are not caught under the gifting rules.

The special disability trust will be exempt from the Social Security means test. This will apply to trust income and distributions that are used solely for the care and accommodation of Carla and the trust assets of \$225,000 (limit of \$500,000 indexed annually).

Accessing the equity their home has enabled Chris and Sarah to make provision for the current and future accommodation and ongoing care of their daughter Carla. They are now able to contribute \$225,000 into a special disability trust for her care without their age pension being affected by gifting.

This example further illustrates the importance of reverse mortgage applicants receiving appropriate financial advice.

### **Special Disability Trusts –An outline of the new measures**

Effective 20 September 2006, parents or other immediate family members of a person with a severe disability, will be able to establish a private trust, a special disability trust of up to \$500,000 to provide for the costs of future care of the person. This measure will provide certainty for families who are concerned that their disabled family member may not have the financial support to take care for their accommodation or care needs when the family is no longer able to care for them.

The special disability trust must be established solely in order to provide for the current and future care and accommodation needs of the beneficiary. For these trusts the Income and Assets Test rules and the gifting rules normally applied under Social Security will not apply. Income from the trust won't affect Social Security benefits, in particular the disability support pension received by the beneficiary of the trust. Also, gifts to the trust will not affect the gifting rules for the Assets Test that would normally apply to the gifting person's Age Pension or Service Pension. The \$500,000 trust limit will be indexed annually in line with the Consumer Price Index (CPI).

There are certain limitations contained in the new measures which have been designed to narrow the application to such disabled persons, these include:

- The severely disabled person must be the sole beneficiary of the trust;
- The sole purpose of the trust is to provide for the reasonable care and accommodation needs of that person;
- The severely disabled person must be in receipt of a disability support pension and be unable to work, but also be either in an institution, hostel or group home or cared for by a person who would qualify for the carer's payment or allowance.

### **Attribution of income of special disability trusts**

An amount of income derived by a special disability trust, such as from interest earned on the investment of trust property, will not be taken to be income received by any individual, to be the income of the beneficiary of the trust or any immediate family member who has made a gift to the trust.

For example, if a distribution from the trust was used to pay for rental accommodation for the principal beneficiary, then, even though the beneficiary receives an amount that would ordinarily be treated as income, this trust distribution will not be considered to be income for social security purposes.

### **Attribution of assets of special disability trusts**

Assets up to the value of \$500,000 of the special disability trust will not be included in the assets of the principal beneficiary of the trust. Any amounts above this limit will be included as assessable assets and assessed by social security.

There is no limit on the value of assets held within a special disability trust. Any additional assets will be assessable for the principal beneficiary, except for the principal residence which if held in the trust, will still be a non-assessable asset.

### **Transferring to a special disability trust**

The transfer of assets to a special disability trust will not be taken to be a disposal of an asset if certain conditions are met. These include:

- The asset is transferred by an immediate family member of the beneficiary;
- The person who transferred the asset, or his or her partner, is of age pension age and receiving a social security pension or a service pension;
- The transfer is without consideration and unconditional; and
- The value of all transferred assets is less than \$500,000.

### **Disclaimer**

The information contained in this update is for financial advisers. It is a guide only and based on legislation current and proposed as at August 2006. We believe the information contained in this update has been obtained from reliable sources but we cannot be responsible for any errors, omission or inaccuracies.

### **About Mariner Financial Limited**

Mariner Financial Limited is a diversified financial services company listed on the Australian Stock Exchange [ASX: MFI]. Mariner specialises in delivering products that offer investors real opportunities to build and preserve their wealth, through originating, structuring and distributing truly unique products. It offers a range of investment solutions that cover Retirement Solutions, Superannuation Solutions, Income Products, Equity Funds, Property, Alternative Equity Products and Private Equity.

For further information, please visit the Mariner website at <[www.marinerfunds.com.au](http://www.marinerfunds.com.au)>.

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