Australian Government

Department of Veterans' Affairs

Factsheet IS73 - Granny Flats, Retirement Villages and Sale Leaseback Agreements

Purpose

This Factsheet defines granny flats, retirement villages and sale leaseback agreements, and how they may affect your income support pension or payment.

*Note: whilst this Factsheet uses the term 'Pension' and 'Pensioner' it also applies to those receiving veteran payment.

What is a granny flat?

A granny flat is accommodation where the pensioner has a right to accommodation for life or a life interest in another person's private home. Examples of this are where:

- a pensioner has transferred the title of their principal residence to a relative but has retained the right to live there for the rest of their life
- a pensioner has provided funds to build a granny flat, or to build extensions, on a relative's property and has the right to live there for the rest of their life
- a pensioner provides some or all of the funds used to purchase a property that is registered in the name of a relative but in which the pensioner has the right to live for life.

A pensioner who retains full or partial title to their principal residence does not have a granny flat interest as they have the right to continue to live in the property because of their ownership and not as a result of a family arrangement.

What is a retirement village?

A retirement village is a home where accommodation is intended mainly for people aged 55 years or older. Usually a retirement village is made up of self-care units, serviced units, hostel units or a combination of these. Most retirement villages also have communal facilities such as a dining room, kitchen or entertainment area.

What is a sale leaseback agreement?

A sale leaseback agreement allows a person to sell their home but retain the right to live in that home for life or for a fixed period. Under such an agreement the buyer pays the pensioner an initial payment and agrees to pay an amount (called the deferred payment amount) to the pensioner at the end of the fixed period, or to the pensioner's estate upon the death of the pensioner.

What is an entry contribution?

An entry contribution is the amount you pay or agree to pay in order to secure your right to live in a retirement village or granny flat.

In the case of a sale leaseback agreement, the entry contribution is the deferred payment amount (refer to page 1).

In granny flat cases a test called the Reasonableness Test may be applied to work out the entry contribution (refer to the section titled 'What is the Reasonableness Test' on page 3).

How does moving into a granny flat, retirement village or entering in to a sale leaseback agreement affect my pension?

The amount of entry contribution that you pay for your residence will determine whether you are considered to be a home owner or a non-home owner for pension purposes.

If you are single or a member of a couple and your entry contribution is less than or equal to $210,500 you are considered to be a non–home owner for pension purposes. If you are paying rent for the accommodation you also may be eligible for rent assistance. For further information refer to Factsheet IS74 Renting and Rent Assistance.

If your entry contribution is more than $210,500, you are considered a home owner for pension purposes and your entry contribution is not counted as an asset for pension purposes. As you are considered to be a home owner, you are not eligible for rent assistance.

The entry contribution of one member of a couple is half of the total amount paid for the right of residence. If the combined amount (for both members of a couple) is less than or equal to $210,500 you are both considered to be non-home owners for pension purposes. If the combined amount is more than $210,500, you are considered a home owner for pension purposes.

If you are a non–home owner your asset value limit is greater than someone who is a home owner. The asset value limit means the assets you can own before your pension reduces from the maximum rate under the assets test. A non-home owner is allowed more assets than a home owner before pension is reduced from the maximum rate under the assets test.

If you were previously a home owner then your home will be included in the assets in your pension assessment. Because you are now living in a granny flat, retirement village or entering into a sale leaseback agreement, this new residence is considered your principal residence.

Amount of Entry Contribution

The following table demonstrates what amount is considered to be an entry contribution.

If a person is	And	Then the entry contribution is
not a member of a couple		the total amount agreed to be paid
a member of a couple	both members are sharing accommodation in a special residence	half the total amount agreed to be paid
a member of a couple	partner not entering a special residence	the total amount agreed to be paid
a member of an illness separated couple	partner not entering a special residence	the total amount agreed to be paid
a member of an illness separated couple	both members are sharing accommodation in a special residence	half the total amount agreed to be paid
a member of an illness separated couple	both members are entering separate accommodation in a special residence	individual amounts agreed to be paid

***Note: -** The amount agreed to be paid can also be the amount considered "reasonable" for granny flat purposes and the "deferred payment amount" for sale leaseback purposes.

The amount agreed to be paid may consist of more than one contract. Where two or more contracts are signed for the right to enter the retirement village, the amounts are added to determine the entry contribution.

Assessment of vacated residence

If you were a home owner prior to entering a granny flat or retirement village, and you are retaining ownership of your former home, the asset value of the home (which was exempt while it was your principal place of residence) will now be included in your assets test when determining your pension. This is because your new residence is your principal home.

If you were a home owner and you entered into a sale leaseback arrangement, and continue to reside in your former principal home, any remaining right or interest you hold in the value of the home (known as the deferred payment amount) is disregarded under the assets test.

What is the Reasonableness Test?

The Reasonableness Test calculates a figure which is an approximation of the amount you would have paid for accommodation if you had entered an aged care facility instead of a granny flat. This figure is based on your life expectancy, and the combined yearly maximum rate of service pension paid to pensioner couples. If you are a member of a couple, the age of the younger member of the couple is used. Then the amount you have paid to set up the granny flat is compared to the figure worked out using the Reasonableness Test.

If the amount you have paid to set up the granny flat is less than the figure calculated under the Reasonableness Test, then the amount you have paid to set up the granny flat is your entry contribution.

If the amount you have paid to set up the granny flat is greater than the figure calculated under the Reasonableness Test, your entry contribution is the same as the figure calculated under the Reasonableness Test. The excess amount is treated as a deprived asset. For more information on deprived assets refer to Factsheet IS92 Giving Away Income or Assets.

When isn’t the Reasonableness Test applied?

In certain cases the entry contribution that is paid is considered reasonable without requiring the Reasonableness Test.

You have provided funds for the construction of the granny flat

In cases where you have provided the funds for the construction of a granny flat or the extension to a relative’s home and the full amount is spent on construction, the amount will be considered as reasonable.

If you have provided an amount that is in excess of 110% of the construction costs, the Reasonableness Test will be applied.

You have transferred the title of your principal residence

In cases where you have transferred the title of your principal residence to a relative or another person, the length of time you have spent in that home determines whether the value of the transfer is reasonable.

If you have lived in the home for at least 20 years, the value will be accepted as reasonable in all cases. A lesser period will be accepted if you have traditionally been a home owner and have resided in properties of similar value. If you have only recently become a home owner, i.e. within the last 5 years, the Reasonableness Test is applied.

What if I leave my granny flat?

If you leave your granny flat within 5 years of the date you established it, deprivation provisions may apply.

If you are forced to leave due to unforseen circumstances, deprivation provisions will not apply.

***Note: -** An event such as being admitted to a nursing home is not automatically accepted as an event that could not have been foreseen.

If leaving the granny flat could have been anticipated, the amount you paid to establish the granny flat may be treated as a deprived asset.

For more information on deprived assets refer to Factsheet IS92 Giving Away Income or Assets.

Obligations

When you are granted an income support pension or payment and periodically after that, you will be notified of your obligations. You will be required to tell us within 14 days (28 days if you live overseas or receive remote area allowance) of changes to your circumstances that might affect the rate of income support pension or payment you receive or your eligibility to receive that pension or payment. These obligations apply equally to trustees.

In relation to granny flats, retirement villages and sale leaseback agreements, the sorts of things you would need to tell us about within 14 days (28 days if you live overseas or receive remote area allowance) are if:

- you set up a granny flat, sale leaseback agreement or enter a retirement village; or
- you cease living in your granny flat or end your sale leaseback agreement.

If you are receiving rent assistance, the sorts of things you would need to tell us about within 14 days (28 days if you live overseas or receive remote area allowance) are if:

- the amount you pay in rent varies; or
- you stop paying rent.

There may be penalties applied in respect of failure to fulfil obligations. In addition any overpayment caused by a person's failure to fulfil obligations within the prescribed period is considered recoverable and an administrative charge may be added to the debt.

More Information

DVA General Enquiries

Phone: 1800 555 254 *

Email: GeneralEnquiries@dva.gov.au

DVA Website: www.dva.gov.au

Factsheet Website: www.dva.gov.au/factsheets

* Calls from mobile phones and pay phones may incur additional charges.

Related Factsheets

- IS71 Home Owners
- IS74 Renting and Rent Assistance
- IS75 Renting and Rent Assistance - Social Security Age Pensioners
- IS92 Giving Away Income or Assets

Disclaimer

The information contained in this Factsheet is general in nature and does not take into account individual circumstances. You should not make important decisions, such as those that affect your financial or lifestyle position on the basis of information contained in this Factsheet. Where you are required to lodge a written claim for a benefit, you must take full responsibility for your decisions prior to the written claim being determined. You should seek confirmation in writing of any oral advice you receive from DVA.

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