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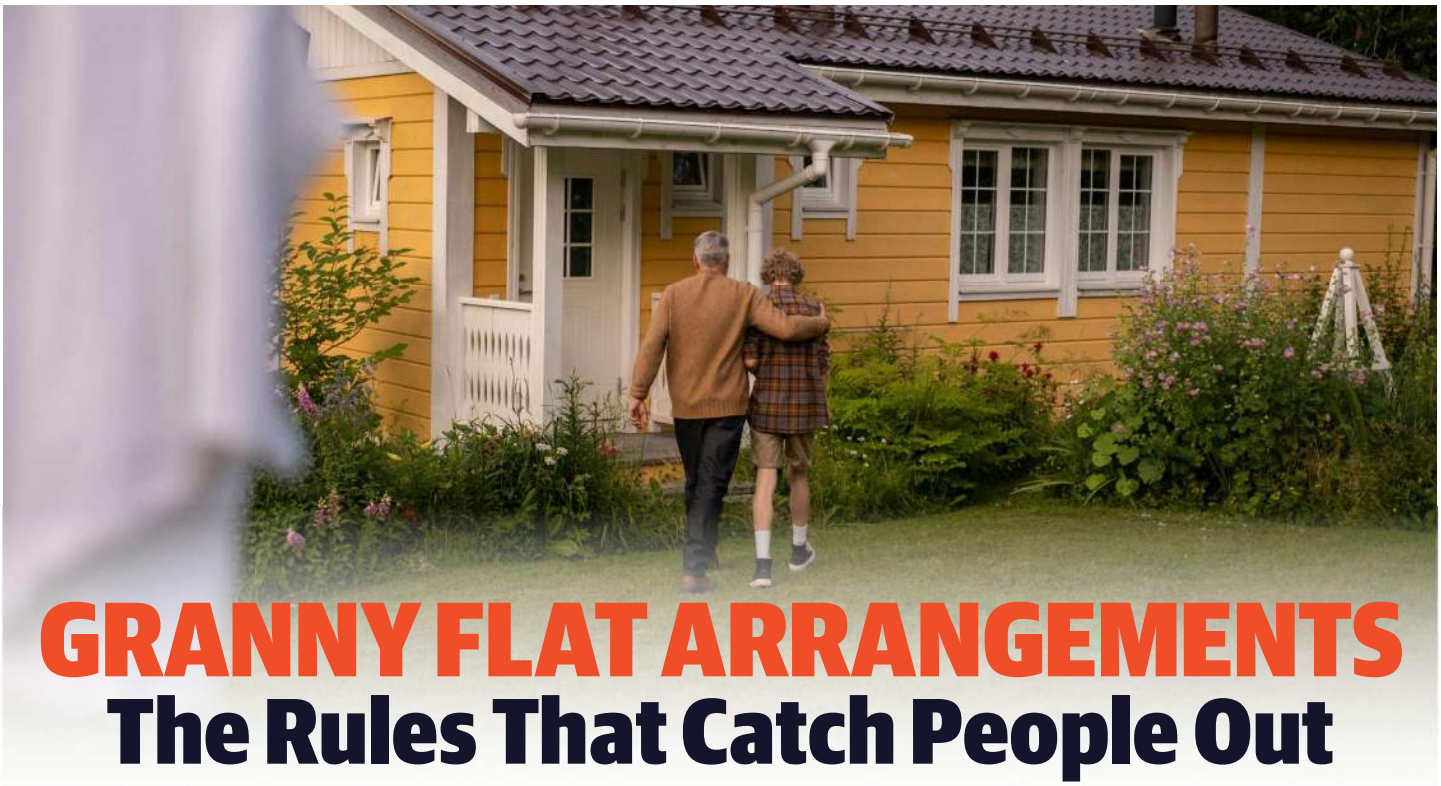

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GRANNY FLAT ARRANGEMENTS
The Rules That Catch People Out

BY WEALTH ADVISER

Mum and Dad sold their house in Wollongong and used the proceeds to help us build an extension on ours. They've got their own bedroom, sitting room, and bathroom at the back. We treat the place as theirs. It works really well – although our accountant did mention something about Centrelink, and we're not sure whether anything needs to be in writing.

That conversation, or something close to it, plays out in tens of thousands of Australian households every year. Multi-generational living has been quietly rising – driven partly by housing affordability, partly by the cost and inadequacy of residential aged care, and partly by older Australians simply wanting to stay close to family. The decisions that sit behind these arrangements look like family matters. They are also financial and legal structures, and they sit at the intersection of tax law, social security law, and family relationships in ways that can be technically intricate.

The phrase granny flat gets used loosely for two different things. One is a physical structure – a self-contained dwelling at the back of a child's property, an extension, a converted garage. The other is a Centrelink concept that has nothing to do with the building. Both matter, but the Centrelink concept is where most of the planning complexity sits, and it's

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where readers most often discover, sometimes too late, that things weren't set up the way they thought.

This article works through the two arrangements, the tax and social security rules that govern them, and the document that quietly determines whether an arrangement works the way the family intended.

Two arrangements, often confused

The first kind of granny flat arrangement is the one most people picture. The older parent contributes money – sometimes a lot of money – toward the construction of a self-contained dwelling on a child's property, or an extension that creates separate living space. The dwelling is physical. The contribution is to building costs. Title to the property stays with the child throughout.

The second kind has no physical flat at all. It's a social security concept the legislation calls a granny flat interest. It exists whenever an older person transfers money, assets, or property to someone else – usually but not always a family member – in exchange for a right to occupy that person's home for life. The accommodation might be a separate dwelling. It might be a bedroom and shared kitchen. The defining feature isn't the building. It's the exchange: assets for a lifetime right to live somewhere.

The two concepts often overlap. A parent who sells their home and contributes the proceeds toward an extension on a child's property has both a physical granny flat and a Centrelink granny flat interest. But the concepts can also exist independently. A parent who simply moves in with a child and pays nothing has no granny flat interest. A parent who sells the family home, gives the proceeds to a child, and moves into a spare room in the child's existing house has a granny flat interest with no flat. A parent who transfers the title to their home to a child and stays put under a right to occupy has a granny flat interest with no construction at all.

Once you separate the two, the rules become easier to follow. The construction costs question is largely a tax and Centrelink question about whether contributing to a build counts as a gift. The granny flat interest question is a broader Centrelink question about whether the value of what was transferred is reasonable in exchange for the lifetime right received. The two can be in play at the same time, but they answer different questions.

The CGT concession introduced in 2021

For a long time, there was a tax disincentive sitting in the middle of these arrangements. When an adult child agreed in writing that an older parent could live in their home for life, the ATO treated the granting of that right as a CGT event – specifically, CGT event D1, the creation of contractual rights. The child could find themselves with a capital gain on what felt like a family act of kindness. That outcome pushed many families toward informal arrangements that left everyone exposed if things later went wrong.

The Treasury Laws Amendment (2021 Measures No. 4) Act 2021 changed this. From 1 July 2021, any capital gain or loss arising for the property owner on the creation, variation, or termination of a formal granny flat arrangement is disregarded, provided certain conditions are met. The conditions are tightly drawn, and getting them right matters.

The arrangement must involve a property owned by one or more individuals – not by a company or trust. One practical complication is that many family homes are now held through discretionary trusts or family companies for asset-protection or tax reasons; in those cases the concession generally won't apply, which can materially limit the planning options. The person who will hold the granny flat interest must be eligible: either of Age Pension age, or under Age Pension age but with a disability that requires daily living assistance and that's expected to continue for at least 12 months. The parties must enter into a written and binding agreement. And the arrangement must not be commercial in nature – charging market-style rent or structuring the arrangement on commercial terms may jeopardise eligibility, while contributing to household running costs like utilities generally will not.

When all those conditions are satisfied, creating the granny flat interest doesn't generate an assessable gain for the property owner. The same applies to a variation – for example, where the family moves to a different property and the agreement is updated to cover the new home – and to a termination, including where the older person eventually moves into residential care.

A few things this concession does not do. It doesn't change the main residence exemption rules for the property itself. If the property is later sold, the normal CGT rules apply, and whether the main residence exemption is

available — fully, partly, or not at all — depends on how the property has been used. If the property has been the owner's main residence throughout, the exemption usually applies. The analysis becomes more complicated where part of the property is separately rented, used for business purposes, or treated as a distinct income-producing dwelling. These questions are arrangement-specific and benefit from professional advice before the property is sold, not after.

The concession also doesn't reach back. CGT events that occurred before 1 July 2021 aren't affected. An arrangement formalised in writing in 2018 doesn't retrospectively become exempt, although a written variation entered into now may bring the arrangement within the concession going forward.

There's one further point that often surprises families. The CGT concession is a Commonwealth tax measure; it has no effect on state and territory transfer duty (stamp duty). Depending on the structure used — particularly transfers of title, partial interests, or registered life interests — duty may still apply at state rates and on state-specific exemptions. The rules differ across jurisdictions, and the duty question should be raised with the solicitor drafting the arrangement.

Centrelink and the reasonableness test

The more pervasive complications come from Centrelink. The rule is straightforward in principle: if an older person transfers assets to someone else and receives nothing in return, the transfer is treated as a gift, and the gifted amount stays on the Centrelink assessment for five years under the deprivation rules. The annual gifting allowance — $10,000 per financial year up to a maximum of $30,000 over five years — provides only modest relief.

A granny flat interest changes the picture. When assets are transferred in exchange for a lifetime right to live in someone's home, Centrelink may treat the transfer as receiving fair value rather than gifting. But Centrelink won't simply accept whatever value the family puts on the lifetime right. It applies a reasonableness test — what the Department of Social Services describes as a quasi-actuarial valuation — to work out what the right to occupy is reasonably worth.

The reasonableness test isn't applied to every arrangement. In ordinary construction-cost arrangements, the amount contributed toward construction is generally accepted as the value of the granny flat interest without applying the test. The same is generally true where the older person transfers the title to their home and continues to live in it under a right to occupy. The test commonly bites where additional assets are transferred beyond construction or property transfer, where the value of the granny flat interest is indeterminate (most commonly because a cash sum was paid), or where the older person enters into multiple granny flat arrangements.

When the test does apply, the formula is the combined annual partnered Age Pension rate multiplied by an age-based conversion factor. The combined partnered rate is used regardless of whether the person is single or partnered. The conversion factor is taken from a table in the DSS Social Security Guide and is based on the person's age next birthday — for a couple, the age of the younger partner.

To make this concrete, take a 75-year-old single woman, Margaret. Margaret sells her home for $850,000, gives the full proceeds to her son in cash, and in exchange receives a written right to live in his home for the rest of her life. Because Margaret has paid cash rather than transferring property or paying construction costs, the value of her granny flat interest is indeterminate, and Centrelink applies the reasonableness test.

The combined annual partnered Age Pension rate at March 2026 is $47,070. Margaret's age next birthday is 76, which under the DSS conversion factor table gives a factor of 12.78. The reasonableness test amount is $47,070 multiplied by 12.78, or $601,555. Margaret has paid her son $850,000 in exchange for a lifetime right that Centrelink considers reasonably worth roughly $601,500. The difference — about $248,500 — is treated as a gift. After deducting the $10,000 annual allowance, around $238,500 sits on Margaret's Centrelink assessment as a deprived asset for five years, deemed to earn income at the prevailing deeming rates.

A different choice would produce a different outcome. If Margaret had instead transferred title to her home (worth $850,000) to her son and continued to live in it under a right to occupy, the reasonableness test wouldn't have applied to the transfer at all. The granny flat interest would have been taken at the value of the transferred property, and there would have been no gift. The construction-cost path also tends to be benign: paying $300,000 toward the build of a self-contained dwelling on a child's land usually translates into a granny flat interest valued at the construction cost, with no reasonableness test triggered.

The conversion factors fall as the person ages — a 65-year-old has a factor of around 21.5, a 90-year-old around 4.9 — reflecting the actuarial reality that older people have a shorter expected period of occupation. The combined partnered Age Pension rate is indexed twice a year. The number that matters is the one at the date the arrangement is created, not the rate at any later point.

There's also a five-year tail. If the older person vacates the granny flat arrangement within five years of creating it — for example, by moving into residential aged care — Centrelink can look back at whether entry into residential care was reasonably foreseeable when the arrangement was established. Where it was, Centrelink may revisit whether the deprivation rules should apply to the original transfer.

A well-drafted granny flat agreement does several things at once. It records the financial contribution being made — whether that's a cash payment, the transfer of a property, the proceeds of a sale, or a contribution toward construction costs. It describes the right being granted — usually a right to occupy a specified part of the property for life, sometimes with conditions about exclusive use of certain areas and shared use of others.

The five-year window is a quietly important feature of these arrangements, particularly for older parents whose health may already be declining when the arrangement is set up. The flip side is also worth flagging: a granny flat interest can affect later residential aged care assessments, including homeowner status and means-tested care fee calculations, in ways that may not be obvious when the arrangement is first considered.

When arrangements go wrong

The technical rules are demanding, but most of the real damage in granny flat arrangements comes from things that aren't strictly technical. The parent transfers the family home to the adult child, and the child later divorces; the home, now in the child's name alone, falls into the matrimonial pool. The parent contributes substantial sums toward building a granny flat, the relationship between parent and child deteriorates, and there's no document recording what was agreed. The arrangement was set up while the parent was still cognitively sharp; ten years later the parent has dementia, and there's a dispute among the adult children about what Mum and Dad actually agreed to. The child predeceases the parent, the child's spouse inherits the property under a standard will, and the parent — who paid for half the house — has no documented interest in it. The property-owning child later becomes bankrupt or subject to creditor claims, and the older person's position becomes vulnerable because their interest was never properly documented or protected.

These are not edge cases. The documented patterns of failure in granny flat arrangements echo through family law judgments, succession disputes, and elder abuse case studies. They cluster around a single common factor: a substantial financial contribution by an older person, no formal record of what was given in exchange, and no plan for what happens when something changes.

The defence isn't complicated. It's a written agreement, drafted by a solicitor who's done this kind of work before, that records what each party has contributed and what each party is entitled to expect. The cost of getting an agreement drafted properly — typically a few thousand dollars — is trivial in the context of the sums usually being transferred.

What the written agreement should cover

A well-drafted granny flat agreement does several things at once. It records the financial contribution being made — whether that's a cash payment, the transfer of a property, the proceeds of a sale, or a contribution toward construction costs. It describes the right being granted — usually a right to occupy a specified part of the property for life, sometimes with conditions about exclusive use of certain areas and shared use of others.

It also addresses what happens when circumstances change. What if the older person needs to move into residential aged care — does any of the contribution come back, and on what basis? What if the property is sold during the older person's lifetime — what's the older person's entitlement, and where do they live in the meantime? What if the child dies first — does the agreement bind the child's estate, and how is that secured? What if the relationship between parent and child breaks down — what process applies?

These questions are uncomfortable to raise in the warm context of a family deciding to live together. They're vastly more uncomfortable to litigate later, when circumstances have changed and one party feels they were taken advantage of. The CGT concession introduced in 2021 was explicitly designed to remove a tax obstacle that had been pushing families toward informal arrangements, in part because the government recognised that informal arrangements provide a context in which elder financial abuse risks can arise. Formalising the agreement isn't bureaucratic. It's the central protective structure.

The agreement should also be coordinated with the older person's broader estate planning — their will, any binding death benefit nomination on their super, and their enduring power of attorney. An agreement that grants the older person a lifetime right to occupy is hollow if the property owner's will leaves the property to someone who has no obligation to honour the arrangement. A solicitor drafting the granny flat agreement will usually want to look at the older person's will at the same time, and may recommend complementary changes to the property owner's will and binding nomination.

Finally, depending on the legal structure used and the state or territory involved, it may be possible to register or

otherwise protect the older person's interest — for example, by lodging a caveat or noting a life interest on title. The available mechanisms vary by state and depend heavily on the drafting of the arrangement. The advice on this point should come from the solicitor drafting the agreement, with reference to the law in the relevant state or territory.

Worth thinking about

A granny flat arrangement is one of those planning structures where the family-warm and financially-formal sides have to coexist. The arrangement is being entered into because people love each other. It also involves the transfer of often substantial sums of money in a way that affects tax, Age Pension entitlements, future aged care assessments, and ultimately the older person's estate. Both sides matter, and pretending the financial dimension isn't there doesn't make it go away.

A few questions worth raising with your adviser before a granny flat arrangement is set up — or, if one is already in place informally, before too much more time passes:

- What's the most tax-efficient and Centrelink-efficient way to structure the contribution: transfer of property, construction costs, cash payment, or some combination?
- If a cash payment is involved, does the reasonableness test create a gifting problem, and is there a way to re-structure to avoid it?
- Has the arrangement been documented in writing in a way that satisfies the CGT concession conditions?
- How does the arrangement interact with current and future aged care means tests, particularly if the older person may need residential care within five years?
- How is the arrangement coordinated with the will, binding super nomination, and enduring power of attorney of both the older person and the property owner?
- What happens if the property owner dies first, divorces, or becomes financially distressed — and is the older person's interest secured against those events?

These are the conversations that benefit most from being had early. The arrangements that go badly are almost always the ones where the conversation was put off because everything seemed fine at the time.

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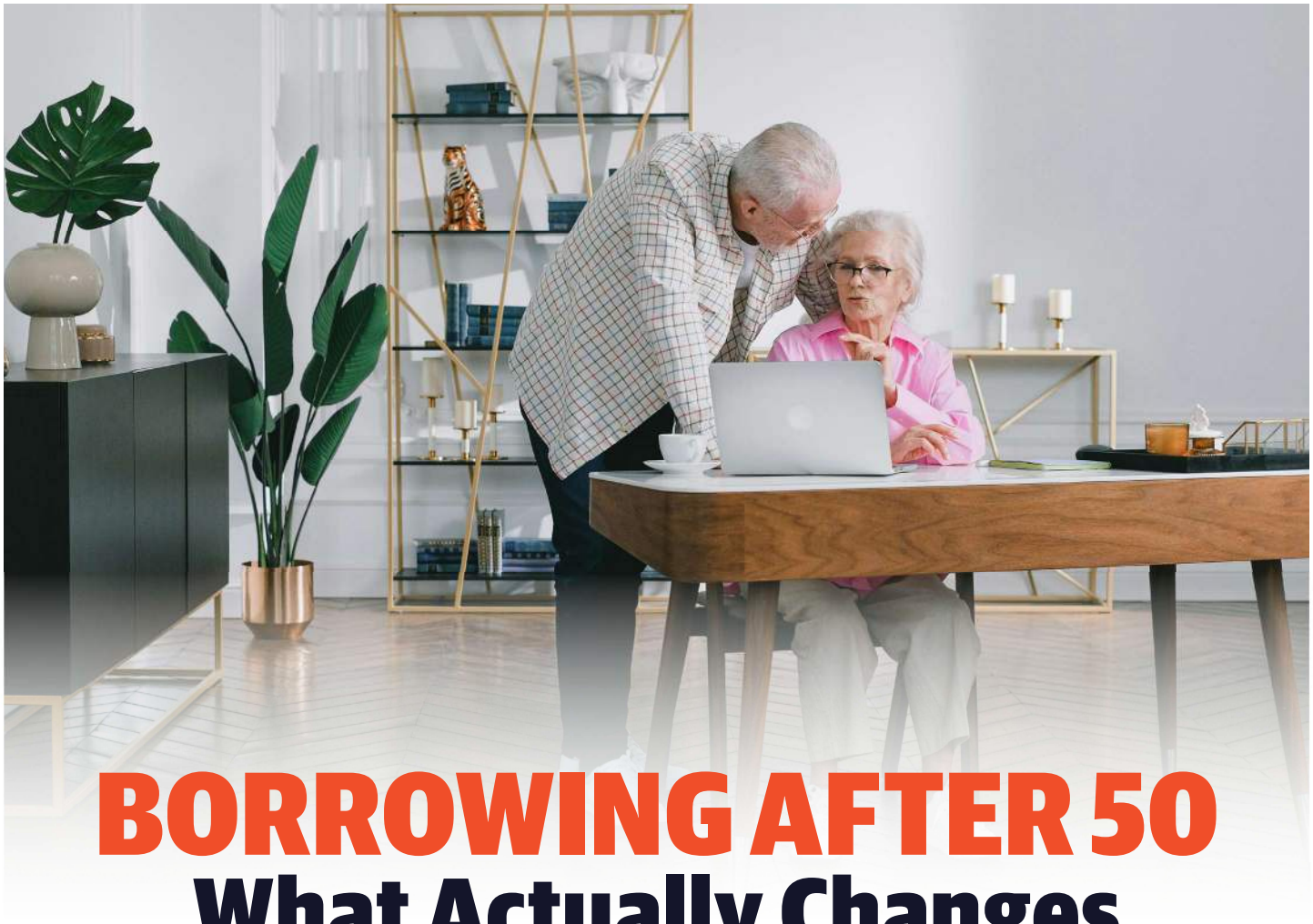

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BORROWING AFTER 50
What Actually Changes

BY WEALTH ADVISER

Most people approaching their early 50s notice the same shift at some point. The first home loan, twenty-five years ago, was approved on a payslip and a pulse. The second, fifteen years later, took a few more questions but went through. Then comes the third — a refinance, an investment property, a renovation top-up, a holiday house, a downsizer purchase — and suddenly the application sits with the credit team for weeks and comes back with questions that didn't get asked the first two times. How will you repay this if you retire at 65? Can you show us your superannuation statements? Have you thought about how a 25-year term works when you'd be 80 at the end of it?

The conversation has changed because the lender's view has changed. Conventional bank lending after 50 is still very much available — Australian banks lend substantial amounts to older borrowers every week — but the framework against which the application is assessed becomes progressively narrower from around the age of 50 onwards, and noticeably narrower again as the borrower approaches Age Pension age. Understanding what changes, and when, gives borrowers in their 50s and 60s a chance to position themselves rather than discover the constraints at application stage.

This article works through the transition. It cuts off before the territory covered in a separate article in this series on reverse mortgages and the Home Equity Access Scheme. That article addressed what's available once conventional lending is largely closed. This one is about the period before that — when there are still real decisions to make.

The framework that shifted

The current lending environment is shaped by two regulators. APRA, the Australian Prudential Regulation Authority, sets the prudential rules that determine how lenders assess borrowers. ASIC, the Australian Securities and Investments Commission, supervises responsible lending conduct under the National Consumer Credit Protection Act. Between them they've built a system in which lenders are required to take a particular kind of forward-looking view, and in which older borrowers attract a particular kind of scrutiny that younger borrowers don't.

Lenders generally take a fairly conservative view of what counts as an acceptable exit strategy. The strongest answers — the ones that smooth the application — share three characteristics: they're specific, they're documented, and they involve assets other than the principal place of residence.

The most visible APRA setting is the serviceability buffer. Lenders are required to assess every new loan at an interest rate at least three percentage points above the actual loan rate. If the loan rate on offer is 6 per cent, the bank tests serviceability at 9 per cent. The buffer was lifted from 2.5 to 3 percentage points in October 2021 and has been left there since, with APRA reaffirming the setting through 2025. It applies to every borrower, but it has a particular effect on borrowers whose income is plateauing or declining toward retirement rather than rising.

A newer addition is the debt-to-income (DTI) limit on portfolio mix. From 1 February 2026, APRA requires each authorised deposit-taking institution to keep new mortgage lending at a DTI of six times income or more to no more than 20 per cent of new lending in each quarter, measured separately for owner-occupier and investor portfolios. At an aggregate market level the limit isn't expected to bind in the near term — most borrowers fall well below six times — but it adds another constraint that lenders factor into the higher-leverage applications older borrowers sometimes contemplate when they're using a substantial deposit alongside continuing income.

ASIC's responsible lending guidance — Regulatory Guide 209 — sets the conduct framework. RG 209 expects lenders to make reasonable inquiries about a consumer's financial situation, requirements, and objectives, and to take reasonable steps to verify the financial situation before forming a view on whether the credit contract is "not unsuitable" for the consumer. For borrowers approaching retirement, the guide directs particular attention to foreseeable reductions in income — including the fact that the borrower's income may change materially during the term of the loan. That regulatory expectation shapes most of what older borrowers experience at application stage.

The exit strategy at the centre

If there's one concept that captures the change in how lenders assess borrowing after 50, it's the exit strategy. The question is straightforward in form: how will this loan be repaid? It's the answer the borrower needs to be ready for, because the lender will be too.

For a 35-year-old with a 30-year loan, the exit strategy isn't usually examined in detail. The loan matures at 65, before traditional retirement age, and employment income covers serviceability throughout. The application doesn't usually trigger the specific inquiries RG 209 directs at borrowers approaching retirement. For a 55-year-old on the same loan, the position is different. The loan matures at 85. Employment income probably won't cover repayments for the back half of that term. Lenders will generally ask, and increasingly scrutinise, how the loan will be serviced or repaid through that back half.

Lenders generally take a fairly conservative view of what counts as an acceptable exit strategy. The strongest answers — the ones that smooth the application — share three characteristics: they're specific, they're documented, and they involve assets other than the principal place of residence. ASIC's guidance encourages lenders to treat reliance on sale of the principal residence cautiously, particularly where no other realistic repayment strategy exists, although a clearly documented plan to downsize with substantial equity left over is treated more favourably. A documented intention to sell an investment property at a defined point, with current valuation evidence and an indicative settlement timeline, is generally accepted. So is a planned super lump sum withdrawal at preservation age, supported by current super statements and a projection of the likely balance. An expected inheritance, even where reasonable, is treated cautiously by most lenders because it depends on someone else's decisions; some lenders will consider it with documented evidence, others won't.

What works less well is anything vague. "I'll keep working" without documented intent and a defined retirement age. "Something will turn up." "The market should keep going up." Selling the principal place of residence as a primary strategy. Selling assets the lender can't verify or value. The patterns of what lenders accept aren't published in a public list — each lender's credit policy is its own document — but the broad shape is consistent enough across the major banks that an experienced broker working in this market can usually predict the response.

The practical implication is that the borrower's preparation matters more after 50 than before. A clear exit strategy, documented before the application is lodged, with the supporting evidence already collected, materially changes the conversation. It shifts the application from "this borrower is approaching retirement, what's the plan?" to "this borrower has a documented plan and the evidence to support it." That's a different conversation, and lenders respond to it differently.

One additional structural option worth understanding is the loan term itself. A 55-year-old applying for a 25-year loan can expect close scrutiny of the exit strategy because the loan would mature when the borrower is 80. The same borrower applying for a 15-year loan — with higher monthly repayments but a maturity at 70 — often finds the application moves through more easily, because the term aligns more closely with the expected working life. The trade-off is genuine: shorter terms mean higher monthly commitments, which feed back into serviceability under the 3 per cent buffer. But for borrowers who can carry the repayments comfortably, a shorter term can be the cleaner structural answer.

Income, and how lenders see it after 50

Exit strategy aside, the other major change in how older borrowers are assessed is income. Lenders look at the same income statement they would for any other borrower, but the weights they apply, and the questions they ask, shift with age.

Employment income remains the strongest form of income, but the lender wants to know how long it's likely to continue. From the early 50s onwards, lenders increasingly factor in the expected retirement date — and they do so even when the borrower hasn't yet decided. Many lenders use retirement-age assumptions somewhere in the 65 to 75 range as a working benchmark, with the specific approach varying materially by institution. A borrower who plans to work to 70 can usually have that recognised, but the lender will often want supporting evidence: the employer's confirmation of continuing employment intent, the borrower's own written statement, sometimes a discussion of the role and whether it's plausible at the later age. A self-employed borrower in a continuing business past 65 will usually need to provide a couple of years of accounts and a credible explanation of why the business continues.

Super pension income is treated cautiously. This catches some borrowers by surprise — they've drawn an account-based pension for a few years, the income is reliable, and they assume the lender will accept it on the same footing as employment income. In practice, most lenders apply a buffer or a discount to pension income to reflect the fact that an account-based pension is not contractually guaranteed and will eventually deplete. Some lenders will accept account-based pension income up to a defined age (often 75 or 80); some will discount it; some will require evidence that the underlying super balance is sufficient to fund the pension for the full loan term. The variability between lenders on this point is wide enough that the same income can be treated quite differently across institutions.

Investment income — dividends, rent, deeming on financial assets — is generally accepted but assessed conservatively. Rental income from an investment property is typically discounted (often by 20 to 25 per cent) to reflect vacancy risk, agent fees, and ongoing costs. Dividend income is usually accepted if it's been received over a stable period; some lenders ask for two or three years of distributions to establish the pattern. Where investment income is large enough to be a meaningful part of the application, the documentation requirements scale up correspondingly.

A practical point that comes up often: borrowers in their late 50s and early 60s sometimes assume they need to "look retired" to be honest with the lender. The opposite is usually closer to the truth. Borrowers who present a clear, current employment picture — with continuing income, documented retirement intent, and evidence of the assets that will service or extinguish the loan after retirement — tend to find the application moves through more cleanly than borrowers whose financial position is harder for the lender to read.

A related point on the expense side. Modern serviceability calculations are sensitive to household expenses, dependent children (including adult children still at home), and outstanding HELP debt — including HELP debt the borrower may be carrying from later-life study, or co-signed obligations for adult children. These can materially affect the borrowing-power calculation even for high-income borrowers, and they're often the line items that explain the gap between what the borrower expected to qualify for and what the lender actually offers.

Other things that change

A few other features of older-borrower lending are worth understanding without going deep on each.

Interest-only periods are more restricted for older borrowers. The standard maximum interest-only period on owner-occupier loans is five years, with five-year extensions sometimes available; on investment loans the position is slightly more flexible. For older borrowers, lenders are particularly cautious about granting or extending interest-only periods that would push the principal repayment phase into retirement, because the higher principal-and-interest repayments after the interest-only period ends become harder to service on reduced income.

Refinancing isn't always easier than new borrowing. Borrowers sometimes assume that refinancing an existing loan — even one with a clean repayment record — will be more straightforward than a fresh application, because the position is already established. In practice, every refinance is treated as a new application under the responsible lending framework, and the same exit strategy and income-assessment questions apply. A borrower whose existing loan was approved 15 years ago without serious examination of retirement plans may find the refinance application receives the scrutiny that the original didn't.

Guarantor structures can change the picture. Where an older borrower can't service a loan on their own, a younger family member acting as guarantor — usually an adult child — can sometimes bring the application within the lender's tolerance. The arrangement carries genuine risk for the guarantor, including potential exposure to the full loan amount if the borrower can't repay, and in some structures the guarantor's exposure can extend beyond the initial shortfall amount unless the guarantee is carefully limited at the outset. Guarantor structures are useful in some circumstances but are not a substitute for a viable exit strategy, and the legal terms warrant careful review before signing.

Some lenders are more open to older borrowers than others. The major banks have similar broad policies but quite different cultures around the older-borrower segment, and the smaller banks, mutuals, and non-bank lenders vary widely. Non-bank lenders in particular often apply more flexible policy in the older-borrower segment, typically at somewhat higher interest rates and with different risk tolerances; for some borrowers the trade-off is worth it, for others the price difference outweighs the policy flexibility. A broker working in this market regularly can usually identify which lenders will respond most favourably to a particular profile, which matters more in the older-borrower segment than in straightforward owner-occupier lending where most institutions land in similar places.

A reflective close

For all the discussion of how to navigate the system, there's a question that's worth asking before the application is lodged: is borrowing the right answer at all?

The framing question for many older borrowers isn't "how do I qualify for this loan?" but "what am I trying to achieve, and is borrowing the most efficient path?" A renovation might be funded from existing savings, a part-redraw from an old offset, a small downsizing, or a deferred timing decision rather than fresh debt. An investment property might be funded from super (with its own complications), through a self-managed super fund, or simply replaced by a more diversified portfolio that doesn't require leverage. A holiday house might be deferred or downsized. A downsizer purchase might be timed to coincide with the sale of the existing home rather than bridged.

For some borrowers, the right answer is genuinely to borrow. Continuing employment income, a clear exit strategy, a property that suits the family's plans, and a term that aligns with the borrower's expected working life all make borrowing a perfectly reasonable structural choice. For others, the right answer is to rethink the question. The household balance sheet at 55 or 60 is usually structured around different assumptions than the one at 35. Refinancing those assumptions, rather than financing a new purchase against them, sometimes produces a better outcome.

Either way, the conversation benefits from being had before the application is lodged rather than after. Lenders respond to preparation. Borrowers who arrive with the questions already worked through tend to discover that the system is more accommodating than the headlines suggest.

Worth thinking about

A few questions worth raising with your adviser before approaching a lender — or before deciding that borrowing is the right answer at all:

- What's the most likely retirement age, and how does the loan term align with it? Would a shorter term materially improve the application's reception?
- What's the exit strategy if employment income ends during the loan term, and what documentation is available to support it?
- How would super pension income, investment income, and Age Pension entitlements (if applicable) be assessed by the lenders most likely to consider the application?
- Is there a structural alternative to borrowing — drawing on existing assets, restructuring the household balance sheet, deferring the decision — that achieves the same goal without the application?
- If a guarantor structure is being considered, are the risks to the guarantor properly understood and documented?
- Would using a broker who works regularly in the older-borrower market be likely to improve the outcome, and is that an appropriate cost in the context of the loan?

These are the conversations that tend to get had only after the first lender has declined. They work better the other way around.

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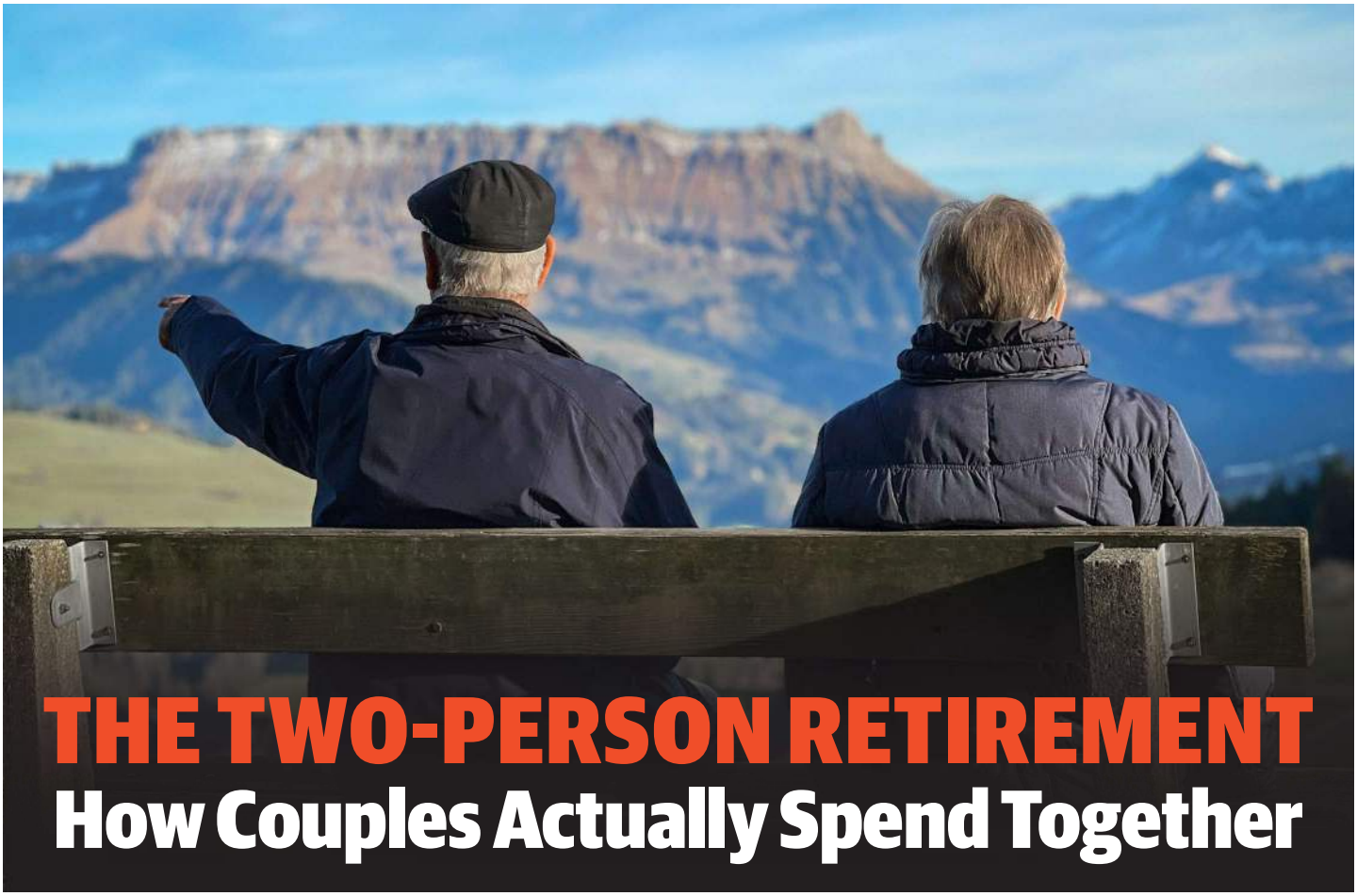

THE TWO-PERSON RETIREMENT
How Couples Actually Spend Together

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BY WEALTH ADVISER

Most retirement-planning content treats a couple as a single household with a single income, a single set of expenses, and a single trajectory through retirement. The arithmetic is tidier that way. It's also misleading.

A real two-person retirement is two retirements, run alongside each other for as long as both partners are alive, with different timings, different health, different preferences, and increasingly diverging needs as the years pass. One partner may retire at 60 while the other works until 67. One may stay active and physically capable into their 80s while the other develops health issues at 75. One may want to travel; the other may want to stay close to home. One may move into residential care while the other continues to live at home, possibly for years. None of this is captured by the household-as-unit framing that dominates the retirement-income literature.

This article looks at how couples actually spend together over a retirement that may last twenty-five or thirty years – what changes, when, and how the two-person dynamics that the standard frameworks gloss over should shape the way a couple plans. It's a companion piece to the article in this series on retirement income that lasts; that one addressed the income side at a technical level. This one is about the spending side and the household dynamics that drive it.

How much do couples actually need?

The most quoted retirement-spending number is the 70 per cent rule of thumb – that retired households need around 70 per cent of pre-retirement income to maintain their standard of living. Some versions use 67 per cent, some 80 per cent. The rule is North American in origin, doesn't reflect Australian housing tenure (where outright homeownership materially changes the picture), doesn't account for the way spending shifts through retirement, and doesn't distinguish between singles and couples. For most Australian couples, it's neither a starting point nor a sense-check; it's a number that flatters or alarms depending on which side of it the household sits.

The more useful Australian benchmark is the ASFA Retirement Standard, published quarterly by the Association of Superannuation Funds of Australia. At the December 2025 quarter, the figures show that a homeowner couple aged 65 to 84 needs about $77,375 a year to fund a comfortable retirement, against $50,866 for a modest one. The corresponding lump sums are $730,000 at retirement

The dominant frame for retirement spending divides the period into three phases: the go-go years (active, often the most expensive, typically the first decade), the slow-go years (slowing down, lower travel and discretionary spending, often the middle decade), and the no-go years (more constrained, often a late uptick driven by health and care needs). The framing is intuitive and widely used. It's also a smoothed approximation of what happens in real households.

to support comfortable, and $120,000 for modest (which assumes the Age Pension does most of the heavy lifting). For singles in the same age band, the figures are $54,840 comfortable and $35,199 modest, with lump sums of $630,000 and $110,000.

The ASFA figures are more carefully calibrated than the 70 per cent rule, but they still have limits. They assume outright homeownership, average health, no major lumpy expenses, and a smooth path to age 84. They split the world into "comfortable" and "modest" as binary categories when most households sit somewhere in between or move between them as circumstances change. And they don't capture the dynamic that this article exists to address — that couples don't experience retirement as a couple-average, they experience it as two people whose paths increasingly diverge.

A more honest starting point for most couples is this: the standard benchmarks are a useful sense-check, not a target. The relevant number is the one that matches the household's actual lifestyle, current expenses, and reasonable expectations for what's ahead. That number is also not constant — it changes through retirement in patterns the benchmarks don't show.

The three phases, and why real couples don't fit them

The dominant frame for retirement spending divides the period into three phases: the go-go years (active, often the most expensive, typically the first decade), the slow-go years (slowing down, lower travel and discretionary spending, often the middle decade), and the no-go years (more constrained, often a late uptick driven by health and care needs). The framing is intuitive and widely used. It's also a smoothed approximation of what happens in real households.

The empirical evidence is messier. Real spending often declines in real terms — adjusted for inflation — but doesn't decline nominally, because the things retirees buy continue to get more expensive. Health-related spending typically rises from the late 70s onwards, sometimes sharply, and the timing varies widely between households. The "late uptick" is often a step rather than a gradual rise, triggered by a specific event — a fall, a diagnosis, the move of one partner into care. And couples deviate from the smooth curve in patterns the three-phase framing tends to hide: one partner's active years overlap with the other's slow-go years, the couple's go-go phase ends abruptly when one partner has a health event, the no-go phase begins for one partner ten years before it begins for the other.

The framing is still useful as a starting mental model. Couples spend more in the first decade of retirement than they might expect — travel, home improvements, helping family, the things they put off while working. They typically spend less in the middle period, partly because they've done the things they wanted to do and partly because energy and inclination decline. And they typically face larger expenses in the late period, often concentrated in the last few years of life and often related to care. Knowing the rough shape helps the couple sense-check their own plan. Treating it as a fixed pattern that will hold for their household is where the trouble starts.

The dynamics that matter most

If the three-phase pattern is the backdrop, the two-person dynamics are the foreground. Five recur consistently in real households.

Retirement timing is rarely synchronised. It's common for one partner to retire several years before the other. This is sometimes about age — a five-year age gap is the typical pattern — but often it's about preference, health, or the structure of the partners' careers. The household becomes a one-retired-one-working unit for a period, sometimes a long one. This has consequences for spending (the working partner's employment income partly funds the retired partner's leisure), for super (one partner is still contributing while the other is drawing down), for Centrelink (different means-test interactions), and for the relationship between the two partners' financial decisions.

Spending preferences diverge. Through working life, couples often run a single household budget covering joint expenses, with individual spending picking up the rest. In retirement, the joint-vs-individual balance shifts. Holidays one partner wants but the other doesn't, hobbies that develop on diverging tracks, the question of how to spend

a windfall or a downsizer surplus — these conversations get harder when time is more abundant and the budget less elastic. Couples who have managed this well through working life often find retirement amplifies the dynamic rather than simplifying it.

Health trajectories diverge. One partner often becomes less mobile, less well, or less independent significantly before the other. The household becomes a carer-and-cared-for unit, sometimes for years. This affects spending (medical costs, modifications to the home, paid care to give the well partner respite), the well partner's autonomy (their own retirement experience is now shaped by the partner's needs), and the eventual structural question of when in-home care needs to become residential care.

Asset bases are rarely equal. Most Australian couples reach retirement with materially different super balances, sometimes different individual asset positions, and different exposure to assets like investment properties or business interests. This matters in retirement because contribution rules and tax structures treat the two balances differently, because the Division 296 tax on large balances (commencing 1 July 2026, applying at the individual total super balance level above $3 million and a higher tier above $10 million) operates separately on each partner, and because the eventual outcome of one partner pre-deceasing the other depends on whose name the assets are in. The household-as-unit framing obscures this entirely; the two-person framing makes it visible.

Decision-making changes over time. Most couples reach retirement with one partner doing more of the household financial decision-making. The pattern is often gendered but not always, and the partner who does the financial work is often the one who's more interested rather than more able. The risk is that the other partner becomes effectively disengaged from financial decisions over years or decades, and is then poorly positioned to take over if circumstances require — through illness, cognitive decline, or death of the more-engaged partner. The two-person retirement is more durable when both partners stay engaged, and reviews that involve both partners equally are part of how that engagement is maintained.

The expenses people forget

A few categories of spending recur in couple retirements that the headline budgets don't always capture well.

Car replacement is the obvious one. Couples in their 60s who own a car will probably replace it at least twice before they stop driving, and possibly three times. Each replacement is a lumpy expense that doesn't sit naturally in the annual budget. Some couples self-insure this by setting aside the rough monthly equivalent in a sinking fund; others meet each expense as it arises, which works only if the household has the financial flexibility to absorb the lump.

Home maintenance and improvements scale up rather than down through retirement. The roof needs replacing. The hot water service fails. The bathroom that worked at 65 doesn't work at 80, and modifications cost more than the original install. Properties also get more expensive to maintain as the owners get less able to do the work themselves; what was a weekend job in the 60s becomes a tradesperson's job a decade later.

Dental work, hearing aids, and glasses are quiet recurring costs that scale up in late retirement. Dental implants alone can run into five figures. Hearing aids replaced every five to seven years cost several thousand dollars a pair. None of these are covered by Medicare, and private health insurance covers some but typically not all.

Helping family is the line item couples are often least comfortable budgeting for explicitly. Helping an adult child with a deposit, a grandchild with school fees, a sibling in difficulty — these decisions get made on the run rather than planned for, and they can be substantial. The couples who handle this well are usually the ones who've decided in advance roughly how much they're willing to commit to family support, and have the conversation between partners before the request arrives rather than after.

Finally, the late-life care surge, which warrants its own treatment.

When the paths split: one partner in care, the other at home

For many couples who reach their late 80s, the single largest discontinuity in their retirement is the move of one partner into residential aged care, or the equivalent in substantial home-based care. The mechanics of aged care funding — refundable accommodation deposits, means-tested care fees, daily care fees — have been covered in detail in earlier issues of this series, and the financial consequences can be substantial and highly fact-specific. What hasn't been covered head-on is the two-person dimension: what happens when one partner moves into care and the other doesn't.

The Centrelink position is the first thing to understand. When a couple is living apart because one partner needs residential or hospital-level care, Centrelink treats them as an illness-separated couple. Each partner is paid at the single rate of the Age Pension — currently $1,200.90 per fortnight (about $31,223 per year) — rather than the partnered rate of $905.20 each (about $23,535 per year). The combined household payment goes from about $47,070 a year as a normal partnered couple to about $62,447 a year as an illness-separated couple. The increase recognises that running two households is more expensive than running one. The income and assets tests still apply at the couple

Many household costs — rates, insurance, utilities, the cost of running the family home — don't halve, because they were largely fixed costs that the second person was sharing rather than doubling. The surviving spouse can end up with materially less than half the household's pre-death income but with substantially more than half its pre-death costs. The tax position can also shift, sometimes adversely, when a couple's income arrangement that was carefully split for tax efficiency becomes a single taxpayer's income.

level, but each partner receives the higher single rate.

The illness-separated arrangement isn't automatic in the sense that Centrelink applies it without being told. It requires that Services Australia be notified that the couple is living apart because of illness, with the separation expected to continue indefinitely. The family is often dealing with multiple practical issues when one partner enters care, and the illness-separated notification is sometimes missed for weeks or months. The adviser conversation around the time of entry to care is the natural place for this to be checked.

The family home is the second issue. When one member of a couple enters permanent residential care and the other remains in the family home, the home is generally treated as the principal home of the partner remaining there. For Centrelink and aged care means-testing purposes, this protection generally continues for as long as the remaining partner lives there — subject to the relevant capped-value and protected-person rules applying at the time. The protected home doesn't count as an asset of the partner in care for aged care fee purposes during this period. That changes when the remaining partner leaves the home — through their own move into care, death, or sale — and the home's value (subject to the relevant cap then in force) can come into the aged care assessment. The mechanics are complex and have been the subject of changes over recent years; the question warrants its own conversation between the family and the adviser at the time of entry to care.

The third dimension is harder to capture in dollar terms. The well partner's own retirement experience is reshaped, often significantly. The household budget may have to support two effectively separate residences, plus visits to the care facility, plus the home modifications and paid help the well partner may now need themselves. The well partner's autonomy is partly absorbed by the role of carer-visitor-decision-maker, even when the partner in care is being cared for full-time. Couples who have planned only for joint retirement often find this asymmetric phase the hardest to navigate, both financially and emotionally.

When the two becomes one

For most couples, the eventual transition isn't both partners in care or both at home. It's one partner dying first, and the household becoming a single-person household with adjusted finances. The mechanics of what a surviving spouse actually has to deal with — death benefit nominations, reversionary pensions, joint account transitions, the tax position of inherited super — were covered in detail in a separate article in this series and aren't repeated here.

What's worth flagging in the context of a two-person plan is that the financial step-down at first death is usually sharper than couples expect. Two Age Pensions become one. Two super pensions become one (or one larger one, depending on how reversionary arrangements were set up). Many household costs — rates, insurance, utilities, the cost of running the family home — don't halve, because they were largely fixed costs that the second person was sharing rather than doubling. The surviving spouse can end up with materially less than half the household's pre-death income but with substantially more than half its pre-death costs. The tax position can also shift, sometimes adversely, when a couple's income arrangement that was carefully split for tax efficiency becomes a single taxpayer's income.

A two-person plan that takes this seriously usually does two things. It makes sure both partners would be financially viable as the survivor — not just on paper but in terms of liquidity, ownership of key assets, and access to the systems and accounts that would otherwise need to be untangled at a difficult time. And it leaves room in the budget for the survivor's reality: the household that emerges after first death is not the household that was planned for during the joint years, and a plan that assumed joint expenses for the full retirement period can run into trouble when one income disappears and most of the costs don't.

Worth thinking about

A two-person retirement plan is more durable than a household-as-unit plan because it acknowledges the asymmetries that real couples actually experience. A few questions worth raising with your adviser at the next review:

- Are both partners engaged in the financial decisions, and is the less-engaged partner positioned to take over if the other can't?

- How does the plan handle the period when one partner is retired and the other is still working — and is the household's super, tax, and Centrelink position optimised for that phase?
- What's the plan if one partner needs paid in-home care or residential care while the other remains at home — and how would the household budget cope?
- Are the partners' super balances structured in a way that's tax-efficient at the couple level, particularly if one balance is approaching the Division 296 threshold?
- Have the lumpy expenses — car replacement, home maintenance, health-related costs, family support — been factored in, or are they being met from a stretched annual budget?
- Is the will, binding super nomination, and enduring power of attorney up to date for both partners — and do both partners understand what would happen if one died first or lost capacity?

The strongest retirement plans aren't the ones with the most accurate forecast. They're the ones that acknowledge the forecast will be wrong and that build in the flexibility to adjust. Two-person retirements need this more than most, because the divergence between the partners' paths is the thing the plan most needs to be ready for.

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Q&A: Ask a Question

Question 1

I'm 55 and looking to refinance. My broker mentioned the lender wants to see an "exit strategy". What does that mean, and why does it matter at my age?

An exit strategy is the lender's term for how you plan to repay the loan once employment income may no longer cover repayments. For a 35-year-old with a 30-year loan, the question rarely arises – the loan matures before traditional retirement age. For a 55-year-old on the same loan, the maturity sits beyond age 80, and responsible lending obligations mean lenders generally scrutinise how the back half of the term will be serviced.

The strongest exit strategies share three features: they're specific, documented, and involve assets other than the family home. A planned sale of an investment property at a defined point, supported by current valuation evidence, is generally accepted. So is a planned super lump sum withdrawal at preservation age, supported by current super statements. Vague answers – "I'll just keep working", or relying primarily on selling the principal residence – tend to receive more scrutiny.

One structural alternative is to shorten the loan term. A 15-year loan maturing at 70 often moves through more easily than a 25-year loan maturing at 80, though repayments are higher. Your adviser can help you think through both the borrowing question and whether the underlying goal might be achieved another way.

Question 2

My parents are thinking of contributing to an extension on our property so they can live with us. We've heard there might be a tax issue if we put it in writing – is that still the case?

It used to be. Until 2021, when an adult child formally agreed in writing that an older parent could live in their home for life, the ATO treated the creation of that right as a capital gains tax event for the property-owning child. Many families avoided this by keeping things informal, which left both sides exposed if circumstances later changed.

That changed from 1 July 2021. Under current rules, any capital gain or loss arising on the creation, variation, or termination of a formal granny flat arrangement is disregarded, provided certain conditions are met. The property must be owned by individuals (not a company or trust), the older person must be of Age Pension age or have a qualifying disability, the agreement must be in writing and legally binding, and the arrangement must not be commercial in nature.

The concession removes the tax obstacle but doesn't replace the need for a properly drafted agreement – and it has no effect on state transfer duty, which is a separate question depending on how the arrangement is structured. A written agreement also protects both parties if circumstances later shift. Your adviser, working alongside a solicitor experienced in these arrangements, can help structure things appropriately.

Question 3

My husband has moved into residential aged care but I'm still living at home. Someone mentioned the Age Pension is treated differently when this happens – how does that work?

When a couple is living apart because one partner needs residential or hospital-level care, Centrelink can treat them as an "illness-separated couple". This is a meaningful change to how the Age Pension is paid. Each partner receives the higher single rate of $1,200.90 per fortnight (about $31,223 per year) rather than the partnered rate of $905.20 each. The combined household payment rises from around $47,070 per year as an ordinary partnered couple to around $62,447 per year – recognising that running two households is more expensive than one.

The income and assets tests still apply at the couple level, so household resources are still assessed jointly, but each partner is paid at the single rate.

The arrangement isn't applied automatically. Services Australia needs to be notified that the couple is living apart due to illness and that the separation is expected to continue indefinitely. With everything else a family is managing when one partner enters care, this notification is sometimes missed for weeks or months – meaning the household may receive a lower payment until the arrangement is updated.

Your adviser can help confirm the notification has been made and review how the change interacts with the broader aged care fee and means-testing arrangements.

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.

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