Lifestyle Financial Advisers
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Welcome to the Spring edition of Your Money Your Future - our client newsletter.

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

Reflecting on the changes approaching (outlined in this edition) and the importance of financial security, now might be a good time to speak with those close to you about the importance of being fully informed. Transferring your knowledge and ideas can really help improve the financial literacy of those you care about.

If you have any questions or enquiries about any of the articles in our newsletter, or any other financial planning topic, don't hesitate to contact us on (02) 6495 2224.

We hope you enjoy reading this edition.

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Plan ahead for super pension changes

Changes to the deeming rules could make it more difficult in future to qualify for the age pension and the Commonwealth Seniors Health Card.

That's because tax-free income from account-based super pensions will soon be included in the income test for Centrelink purposes and to the Commonwealth Seniors Health Card income test. This will put income from super pensions on a level footing with income earned on investments outside super.

The good news is that you have until January 1, 2015 to prepare. Even then, if you are already in receipt of a pension, the new rules will only affect retirees with super pensions started on or after that date.

How does deeming work?

To be eligible for a full or part age pension you need to pass both an assets test and an income test. Under the income test, your financial assets are 'deemed' to have earned a set amount of income, regardless of how much they actually earn.

The current deeming rates for a single retiree are 2 per cent for the first $48,000 of a pension account balance and 3.5 per cent for the remainder. For couples the threshold amount is $79,600.

The new rules will have the greatest impact on retirees with more modest super balances, where the income test is used to determine how much age pension they receive. That is, single home-owners with assets of less than $135,850 or couples with less than $238,200[ii].

From 20 September 2017, the deeming thresholds for means-tested payments are set to be lowered to $30,000 income for singles and $50,000 for couples[iii]. This will make it even harder to qualify for a full or part pension under the income test.

A card with benefits

If you do not receive any Age pension, you may still be entitled to the Commonwealth Seniors Health Card. It provides access to benefits including pharmaceutical discounts and certain travel concessions.

There is no asset test to qualify for the health card but there is an income test, currently $50,000 for singles and $80,000 for couples[iv]. Currently, tax-free income streams from super pensions are not included in the income test but that will change on January 1.

Who is affected?

The new rules ensure that anyone who already has a super pension in place and either receives the Age pension (or other specified Government income support payment) or the Commonwealth Seniors Health Card will not be affected. That is, they will continue to be assessed under the current rules.

If you turn 65 on or after that date you will be assessed under the new rules. Similarly, if you are already in receipt of a pension (or other specified Government income support payment), but commence your super pension on or after 1 January, you will be assessed under the new rules.

Avoiding breaches

While existing pension and card entitlements will continue as normal come January 1, they could still be jeopardised if you breach the new rules.

For example, if a super pension is stopped and re-started, the new pension will be assessed under the less generous deeming rate system. This could happen if you fail to pay the minimum pension amount for the year or if you put extra money into your pension, technically re-starting it in the process.

Your estate plan may also need reviewing. For example, you may need to take steps before January 1 to ensure your partner continues to receive a part pension or the health card after your death. This is what is called a 'reversionary' pension because it 'reverts' to your beneficiary upon your death.

In light of these changes, if you still have money in an accumulation fund you might consider moving it into a pension.

There's still time to plan, speak to your financial adviser to discuss your retirement income strategy.

i. Australian Government, Dept of Human Services, http://www.humanservices.gov.au/customer/enablers/deeming

ii. 'Guide to keeping your old benefits' by John Wasiliev, Australian Financial Review 21-22 June 2014, page 26.

iii. 'Planning for the pension changes' by Bruce Brammell, Eureka Report 19 May 2014

iv. As above

Users to pay for aged care

The decision around whether to get some home help or move to where you or a loved one can get support and care is never an easy one.

But from 1 July changes to the aged care system should give individuals and families a clearer understanding of the choices they have and the cost of getting home help or moving to residential care.

The provision of aged care services remains subsidised by the Government, but the focus of the changes is that those who can afford to contribute to the cost of their care should do so.[i]

Home-based care

For people wanting to stay in their own home as long as possible, the Home and Community Care program is the simplest way for people to get help.

Basic services such as cleaning can be accessed following a simple assessment by an approved provider. The amount a person pays for this will depend on the service, the frequency and their financial situation. However, no one will be denied a service they need, based on an inability to pay.[ii]

Where a range of services are needed for a person to remain in their own home there is a more comprehensive Home Care Package.

Ability to pay

Someone on the Age Pension will be charged a maximum fee of 17.5 per cent of the basic rate of single pension, with a maximum set at $9.57 a day.

People on higher incomes may be asked to pay additional fees (limited to 50 per cent of any income above the basic rate of single pension).[iii]

Individuals considering the Home Care Package need an assessment by an Aged Care Assessment Team, arranged through a General Practitioner or within a hospital. They can also be found on www.myagedcare.gov.au.

ACAT assessments are also needed for anyone entering residential care.

Single fee structure

One significant change to reforms covering residential care is the removal of the distinction between low level care and high level care.

In addition, all residents will be subject to the same fee structure, known as an accommodation payment, which will depend on a resident's assessable income and assets.

Residents with greater means will have to pay more for their ongoing care but caps will be put in place to protect those who receive care over a longer period.

Residents will be able to choose whether they pay for their accommodation as a refundable accommodation deposit (RAD) and equivalent daily accommodation payment (DAP) or a combination of both.

To help people determine whether they can afford a certain facility, all facilities must publish their prices on their website as well as a Government website myagedcare.gov.au.

Keeping the family home

The income-tested fee for care is to be replaced with a means tested care fee to determine how much a resident can pay towards the cost of their care. Going forward a person's home may play a greater role in the financial decision making around going into care.

Where someone going into care owns their own home and no-one eligible lives in it, a portion of its value – currently set at $144,500 and indexed to $153,905 - will count towards the assets test. Under the new rules many residents may end up paying a lower means-tested care fee if they keep their home.[iv]

The new rules apply to individuals who enter residential aged care on or after 1 July 2014, with existing residents grandfathered under the current rules. The rules are complex so please don't hesitate to contact us if you would like to discuss your own aged care considerations or those of your loved ones.

i ChallengerTech_Aged Care reforms

ii http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/Consumer-Directed-Care-Home-Care-Packages

iii http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/Consumer-Directed-Care-Home-Care-Packages

iv ChallengerTech_Aged Care reforms

Australia's growing population. Get ready.

There are 5.2 million boomers in Australia born from 1946 to 1964. This compares with six million generation Xers born between 1965 and 1983. Generation Y, born across the 18 years to 2002, is expected to peak at about 7.4 million next decade.[1]

With Australia's population expected to swell by mid-century and the first wave of baby boomers reaching retirement, building up the nest egg has become more important than ever.[2]

Late boomers, generation X and Y have contributed to their superannuation fund for most of their working lives and are expected to be largely self-funded in retirement from the mid-2020s onwards. However, there is a large gap for the baby boomers retiring now between the superannuation they have and the amount they need for retirement. Either generation X and Y will be forced to support them in the form of more taxes, or Australia will need to import more taxpayers to spread the load.[3]

Generational financial strategies

Each generation has its own financial challenges and strategies vary depending on the stage of life people face.

Age 25–35	With a higher disposable income and less family expenses, this is a good time to accumulate assets.
Aged 35–45	Paying down the mortgage and increasing home equity is the focus.
Age 45–55	Now is the time to shift focus to extra contributions to the retirement nest egg. Debt elimination remains a priority.
Age 55–65	Preservation of investment capital becomes more of a priority in addition to accumulation of capital. The last years of work should be devoted to topping up superannuation contributions.

Source: 'Super success achieved in stages;, 28 July, 2013, The Sydney Morning Herald, viewed 15 November <http://www.smh.com.au/money/saving/super-success-achieved-in-stages-20130727-2qrl9.html>

Market conditions

Whether the retirement age should be lifted to 70 along with compulsory superannuation being increased from 9.25% to 12% are among the policies being explored[4] to cope with a "big Australia". The Australian Bureau of Statistics recently projected the population would surge to 38 million by 2051.[5]

The future for Big Australia

A chart that featured in a November 30 article in The Australian by demographer Bernard Salt shows two possible pathways beyond 2012. One assumption puts net overseas migration at 140,000 a year and the other at 240,000 a year. The second chart shows the net addition to the retirement population averaged about 40,000 a year between 1950 and 2010. From 2010, more than 100,000 people annually joined the retirement ranks, with the number tipped to rise to 140,000 a year.

Salt argued net overseas migration of 242,000 people a year in the next 40 years could provide the skills and tax required to support the transition of baby boomers into retirement. Government spending across housing, health, infrastructure and pensions will have to increase further to accommodate greater boomer numbers.

Whatever stage you are at in your life, there is never a better time for you to plan your future. Speak to your adviser to see how they can help.

1 'We are at a population tipping point', 6 December, 2013, The Australian Financial Review, viewed 15 November, 2013 <http://www.afr.com/p/opinion/we_are_at_population_tipping_point_UgHzGKQHcuJs2ihM9QR9kI>

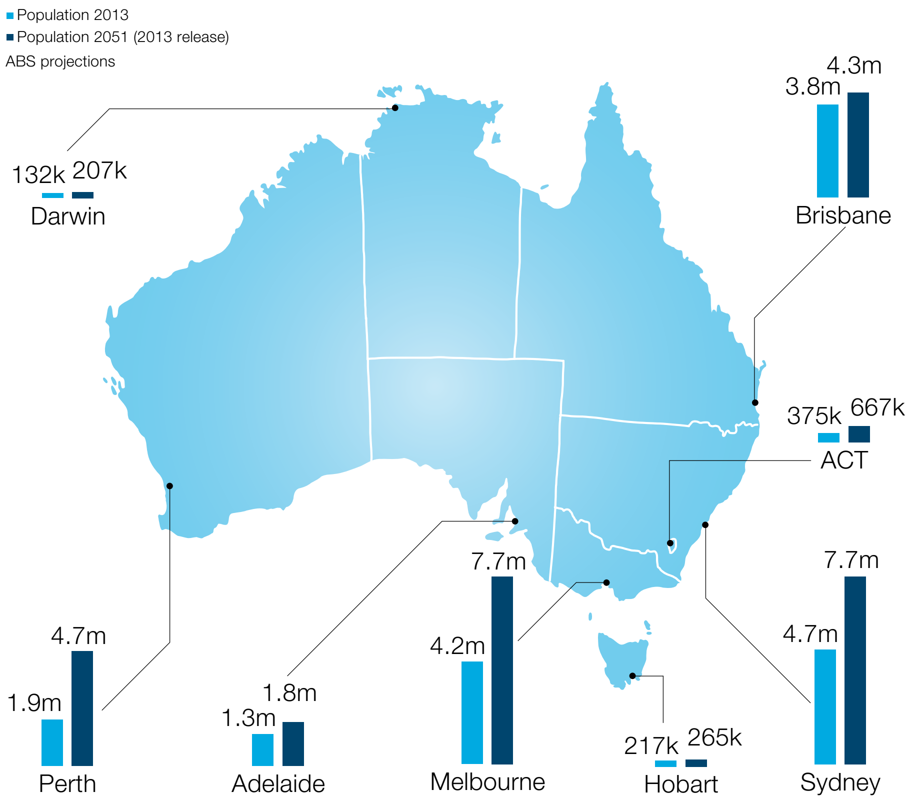
2 ibid

3 ibid

4 Commonwealth Government – Department of Treasury

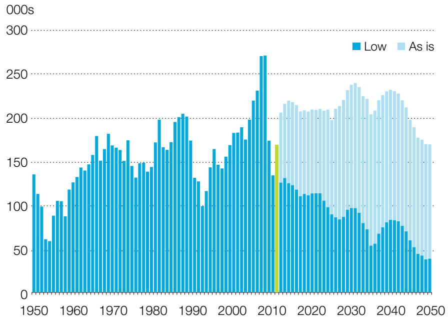
5 http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/3222.0main+features52012%20%28base%29%20to%202101

Pathways to a Big Australia



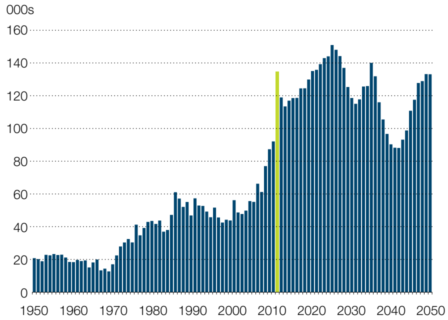
Propping up the worker base

Net growth in working-age (15-64) population



The Retirement Tsunami

Net growth in population aged 65+



Source: ABS; KPMG. Moment to find our bearings on the road to bigger things', 30 November, 2013, The Australian, viewed 15 November 2013 http://www.theaustralian.com.au/business/opinion/moment-to-find-our-bearings-on-the-road-to-bigger-things/story-e6frg9jx-1226771686987#