Lifestyle Financial Advisers
wealth creation ▪ protection ▪ retirement planning

charter financial planning

Merry Christmas

Welcome to the latest edition of Your Money Your Future - our client newsletter!

As we reflect on the 2014 Calender Year we highlight one of the most significant pro-active planning years for many clients since 2007. For Centrelink and Seniors Health Card recipients, never before have we seen a piece of legislation that impacts clients so differently and this has made it challenging to communicate and act upon for each client.

Driven by legislative changes to Superannuation Pensions and Aged Care Means Testing, it has been a year of looking forward and in many cases, pro actively planning for the "what if" scenario and implementing strategies to cover all potential outcomes. Keep an eye out for our client seminars on Aged Care early in 2015 - there is much more to the new rules than what you read and clients need to be better informed on this important topic.

We would also like to welcome our newest member of staff, Kerri Porcaro. Many may know Kerri who worked for Westpac Merimbula for the past 11 years. We are delighted to have Kerri join us at Lifestyle Financial Advisers.

After supporting men's cancer research via our joint sponsorship of Movember in November 2013 with Seeto & Dodd Pharmacy in conjunction with Club Sapphire, we return our community sponsorship for 2014 to the Pambula Surf Life Saving Club in replacement of client Christmas card expenses with a contribution to the club of $500.

We take this opportunity to extend our warmest wishes to all clients and may you have a Happy and Safe Christmas. Our office will be closed from the 22nd of December 2014 and re open on Monday, 5th of January 2015.

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To sell or not to sell?

For many Australians, the family home is their largest asset. And if you're planning to wind down from work, you may be considering what you'll do with yours.

Like many people, you may have worked for a lifetime to build the value you hold in your family home. While selling your home may not be your first choice, if your super balance is low this may be one way to release funds to help pay for your retirement. Or the idea of selling may be liberating—you may be ready to move and keen for a new adventure.

Either way there are financial, practical and emotional factors to consider first. Many people who sell up and move expect to have more money left than they end up with.

Things to consider

If you're thinking of moving to release money from your home, planning ahead can help you feel more in control and provide greater peace of mind.

Consider:

1. **Making a wish-list** before looking for a new place. Buying the right home means you're less likely to need to move again. Think hard about what features you need in your new home and what you can live without, as the more proceeds you have leftover can help fund your retirement.
2. **The best location for now and the future.** Remember you may need to access services and community support down the track so you may not want something which is too isolated.
3. **Selling your existing home before buying another**, although this may not be necessary if you can afford to hold two properties. Make sure you consider any potential capital gains tax implications if you own more than one property. While you don't have to pay capital gains tax on the sale of your primary residence, this is not the case for an investment property and you can't have more than one primary residence.
4. **The costs of moving.** For example stamp duty, real estate agent fees and property styling.
5. The impact of selling your home on any **pension entitlements** you may have.
6. **Renting or house-sitting before buying** in an area that's new to you.
7. **Investing conservatively** while you are house hunting so you give yourself some flexibility as you learn more about the choices and trade-offs involved in choosing the right property.

It's never too late to explore your options. And if time is on your side then planning ahead can help you to:

- uncover the opportunities available to you
- consider keeping your home and perhaps using it to generate income
- tidying up your key asset before selling so you can maximise its value
- manage your money from the sale—your home may be exempt from the assets test but a rise in your bank balance could reduce pension entitlements
- explore new locations that you may not have considered in the past

Regardless of your timing, it's always a good idea to speak with your financial adviser about the options for uncovering value in your home and creating a better retirement.

Weighing up the cost of aged care

American crooner Frank Sinatra may have sung about a few regrets in his classic My Way, but his lyrics also boasted that he "planned each charted course, each careful step along the byway" of life.

Regardless of whether Ol' Blue Eyes' choices were wise or not, the song's message should resonate with anyone wishing to avoid financial decisions that lead to hardship and regret in old age.

The introduction of new aged care rules on July 1 are an opportunity to "do it your way" by planning now for a time when you may no longer be able to live independently.

The so-called 'Living Longer Living Better' reforms are intended to encourage the elderly to stay at home for longer before entering residential care. To this end, low-cost home care packages are available for those who, though partly incapacitated, still choose independence.[i]

Means testing

When the time comes to enter an aged care facility individuals must undergo a means test on all income and assets, including the family home, to ascertain if they can afford to pay for all or part of the service.[ii]

There are concerns, however, that unintended consequences of the new rules could leave some pensioners worse off if they decide to sell their home to pay for nursing home bonds that reduce daily care fees.[iii, iv]

The complexity of the rules, and the fact that families are often forced to make hasty decisions at an extremely emotional time, make it doubly important to seek expert advice before liquidating assets ahead of entering a care facility.

An adviser can help families work out the best financial option, taking individual circumstances and preferences into account. They include an upfront lump sum payment, periodical payments, or a combination of the two.[v]

In addition, there is a basic daily fee and a means-tested care fee for daily living costs such as food and laundry.

Among the reforms is the requirement for providers to advertise their rates. Lump sum payments range from approximately $250,000 to $550,000 for a room of around 14 square metres with an ensuite. Top-end accommodation with more than one room can command lump sum payments upwards of $1 million plus steep daily fees of $200 or more.[vi] In other facilities, service fees can vary between about $45 to $100.[vii, viii]

Sell or rent

Homeowners with insufficient cash to cover the cost of accommodation could consider renting out their property rather than selling.[ix] A combination of rental income and part-pension may provide enough money for living costs while preserving the family nest.

Under the new rules the value of the family home is capped at $154,179, where it is not resided by a spouse or an eligible person. But selling up to fund care could reduce an individual's pension entitlement if the value of the home far outstrips the cost of care.

The means tests applies differently to couples where one individual remains in the family home, those who are living alone and individuals who still have a dependent in the home. On the plus side, annual and lifetime caps apply to the means-tested portion of fees.[x]

Time to plan

The new rules only affect people moving into care after 30 June, 2014. Once you enter a facility, you have 28 days to choose how you wish to pay.

While the reforms offer more payment flexibility, they could also create a financial minefield for the unprepared.[xi]

Sitting pretty in his Beverly Hills mansion, Sinatra may have been able to fondly reminisce about his mistakes. But ordinary folk need to plan ahead for aged care to avoid costly regrets. If you would like to discuss your financial preparations, don't hesitate to speak with your financial adviser.

i. http://www.myagedcare.gov.au/home-care-packages

ii. http://cuffelinks.com.au/face-aged-care-changes-now-face-higher-costs/

iii. https://www.moneysmart.gov.au/life-events-and-you/over-55s/aged-care

iv. http://www.theaustralian.com.au/business/wealth/stop-fear-mongering-aged-care-guru/story-e6frgac6-1226347277746

v. http://www.myagedcare.gov.au/aged-care-home-costs-1-july-2014/paying-accommodation-aged-care-home

vi. http://www.myagedcare.gov.au/finder/aged-care-home-care-detail/3041%7C389

vii. http://www.myagedcare.gov.au/service-finders?finder=aged-care-homes#tab-1

viii. http://www.agedcaresteps.com.au/system/files/Website%20-%20Bond%20proposed%20reforms%20-%20July%202013.pdf

ix. https://www.moneysmart.gov.au/life-events-and-you/over-55s/aged-care

x. http://www.myagedcare.gov.au/aged-care-home-costs-1-july-2014/aged-care-home-means-tested-care-fee-1-july-2014

xi. https://www.moneysmart.gov.au/life-events-and-you/over-55s/aged-care

The hunt for world class investments

Chances are if you have recently bought a computer, watched a movie or popped a headache pill you have boosted the profits of a global company based in LA, Tokyo or Berlin. So why not grab a share of the profits by investing globally as well as locally?

There are compelling reasons to consider an investment in global shares, not least of which is the opportunity to share in the success of household names such as Apple, Google, Johnson & Johnson, Boeing and Visa.

By international standards, the Australian market is a small fish in a big pond accounting for just 2.3 per cent of the global market.[i]

What's more, Australia lacks any major stocks in significant sectors in the world economy, such as technology, pharmaceuticals and aerospace.

Offshore trend

So it is not surprising that many investors are recognising the diversification and other benefits that come from investing in quality companies with a global reach.

According to Morningstar's 2013 Global Flows Report,[ii] Australian investors favoured international share funds at the expense of their domestic counterparts.

Reasons include renewed confidence in global markets, such as the United States and Europe, and opportunities in significant growth industries and regions not available here, from consumables to fast growing emerging economies such as China and India.

Superannuation funds have been leading the charge, although Australian Tax Office statistics show self-managed superannuation funds are also investing more in offshore assets overall.[iii]

With $1.8 trillion in superannuation money looking for a home, the opportunities to invest in a diverse range of large Australian companies is limited. The local market is dominated by the big four banks, BHP Billiton, Rio Tinto and Telstra. In fact, our top 10 companies represent 50 per cent of the local market's value.

Easy access

Luckily, gaining access to offshore investment opportunities has never been easier. The simplest and most cost effective way is to purchase units in a managed global share fund and let specialist fund managers research and work with you to select suitable investments.

You can choose from a wide range of listed and unlisted global share funds and international exchange traded funds. Listed on the Australian Securities Exchange (ASX), exchange traded funds are funds created to track a range of stocks or sectors from around the world, much like an index fund.

In fact, the most difficult thing about investing overseas is that Australians are now spoilt for choice. We can help you explore your options.

Currency movements

One issue that arises whenever you invest Australian dollars overseas is fluctuation in the exchange rate. It is for this reason that many global fund managers offer hedged and unhedged versions of their fund to take account of these currency movements.

An unhedged fund means investors are exposed to fluctuations in the Australian dollar. This can be a good thing if our dollar falls relative to the currency in the country where the investments are held.

With a hedged fund, the investment manager uses strategies to offset the impact of currency fluctuations. Investors will be protected from the adverse impact of a rising Australian dollar but they will also miss out on the benefits of a falling dollar.

Lower risk

A key to reducing investment risk is diversification. Within the share portion of your portfolio that means buying a variety of stocks in different industry sectors and in different countries.[iv]

International shares offer access to some of the most established and successful brand names, in dynamic sectors in some of the oldest and newest markets.

i. 'Why Australia's biggest funds are moving huge amounts of money into overseas stocks' by Narayanan Somadundaram, Business Insider Australia, 14 Apr 2014, http://www.businessinsider.com.au/heres-why-australias-biggest-funds-are-moving-huge-amounts-of-money-into-overseas-stocks-2014-4

ii. http://www.morningstar.com.au/s/documents/Global-Fund-Flows-13.pdf

iii. CoreData Trends in SMSFs

iv. https://www.moneysmart.gov.au/investing/investing-basics/risk-and-return/diversification