September 2014

Welcome to the latest edition of 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 importance of financial security, now might be a good time to speak with those close to you about the importance of being financially literate – no matter what stage of life they're at. Transferring your knowledge and ideas can really help improve the financial literacy of those you care about. Even though MoneySmart week is over, it's never too late to start good habits.

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 08 8339 7973 or admin@hawthornfp.com.au.

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

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

Grandparents unsung childcare heroes

It's meant to be a time to kick back and pursue all those interests you put aside while you worked and raised a family. But increasingly, grandparents are being called on to fill the gaps in Australia's formal childcare system while their adult children go out to work.

Grandparents provide a staggering 23 per cent of all childcare to children under 12 in Australia, according to a recent AMP NATSEM report.[i] The figure is even higher for pre-schoolers because of the high cost of formal childcare and restricted opening hours.

And in a small but growing minority of cases, grandparents are the sole carers of their grandchildren. For the estimated 63,250 grandparents in this position, the financial burden can put severe strain on their limited retirement income.[ii]

Know your limits

In most cases though, grandparents are only too happy to help out for free and regard looking after the grandkids as a joy, not a burden. But it seems joy has its limits.

According to research from the University of Melbourne, older women who took care of grandchildren one day a week had better memory and faster cognitive speed than those who didn't.[iii]

The study found that good social, emotional and mental health are associated with reduced likelihood of getting Alzheimer's Disease. Lively grandchildren certainly provide all these benefits in spades. But so does a game of bridge or a day out sailing, and these activities are arguably less taxing than chasing after a two-year-old.

Indeed, the Melbourne study also found that women who cared for grandchildren five or more days a week had significantly less processing speed and planning scores, possibly because they felt exhausted. These women were more likely to report anxiety and stress because they felt their children were being demanding.

A difficult dilemma

Ian Yates, of national seniors advocacy group COTA Australia, says this poses a difficult dilemma for grandparents who often feel they are not living the life they thought they would.

"We find that some grandparents, usually the grandmother, stop work to look after grandchildren so their children can go to work. Premature departure from the workforce is not good for your physical, mental or emotional health", he says.

Arguably, it is not good for your financial health either. This is especially so at a time when governments are winding back pension entitlements and encouraging everyone to stay in paid work for longer.

So what can grandparents do to strike a balance between helping the family and enjoying an active retirement?

- Have a conversation. Right from the start you need to have an explicit conversation with your children to set out what you do and don't want to do. Unless you speak up they may not know when you feel your time is being encroached upon.
- Look for alternative solutions. Is there another set of grandparents or family members who can help out? If formal childcare is not flexible enough, perhaps some paid home-help could step in for a day or two during the week.
- Put your own health first. Prevention is the best medicine for healthy ageing, so make sure you know your physical and emotional limits. Minding children five days a week is stressful, even for young parents, but especially when you are trying to juggle other activities in your life.
- Spending time with the younger generation, free of the demands of parenthood, is one of the perks of being a grandparent. But care needs to be taken that it doesn't become an imposition on the older generation, their health and wellbeing and their hip pocket.

i. AMP NATSEM 'Childcare affordability in Australia', June 2014, page 7, http://www.natsem.canberra.edu.au/storage/AMP_NATSEM_35.pdf

ii. 'Grandparents need greater help for shouldering primary responsibility for primary care of grandchildren', COTA Australia, 2 April 2014, http://www.cota.org.au/lib/pdf/COTA_Australia/publications/media_releases/cota_mr_grandparents_020414.pdf

iii. "Grandparenting keeps the wheels turning', http://newsroom.melbourne.edu/news/grand-parenting-keeps-wheels-turning