NEWSLETTER JUNE 2015

AGE PENSION CHANGES

In the recent budget they announced that the asset test taper rate will change from $1.50 per fortnight per $1,000 over the minimum limits to $3.00 per fortnight per $1,000 over.

This reduces the upper limit of assets (other than the family home) from $1,151,500 to $823,000 for home owning couples and from $775,500 to $547,000 for home owning singles.

This is totally perverse. The taper rate is an effective $78 per year per $1,000, or 7.8%, so unless you can earn more than 7.8% the more money you have the less your income. A couple with $1 million in the bank at 3% earns $30 000 (with no pension) while a couple with absolutely nothing get $34 823 annual pension under the new rules.

A couple whose assets are in the gap between $451,500 and $823,000, say $750,000, would do better to sell their existing home and spend an extra $300 000 on a new home. Their income actually goes up unless their investments are earning 7.8% or better.

This new (from 1.1.17) test is so perverse and illogical that it cannot last in exactly this format. The writing is on the wall for the family home to eventually form part of the assets test. I warned in my March newsletter that the Intergenerational Report made clear that pensions were going to decrease under every government, so this is just the start.

My personal belief is that it still does not pay to simply waste money to get more pension. Sure, you get $78 for every $1,000 wasted, but you give up what you could have earned – I would not put it in writing but I try to earn 7% p.a. or close to it for my clients – but you also give up the $1,000 for future use when the pension gets lower still and good health care will cost more, and there is nothing to leave to the kids.

I cannot bring myself to recommend that clients blow money to get 7.8% from the Government.

Once the capital is gone you can't get it back again to top up an ever decreasing pension.

It does make sense to pay attention to valuing cars and contents at the lowest figure Centrelink will accept, and the concept of gifting $10 000 per year to the kids (limited to $30 000 every 5 years) starts to look more attractive.

ALLOCATED PENSIONS

While on the subject of writings on the wall, I cannot believe that the tax-free status of allocated pensions will last forever, particularly for those with large balances. Labor has already flagged taxing earnings above $75,000.

WORKING? EARNING LESS THAN $49 488?

If any client is working and has a taxable income below $49,488 (but add on salary sacrifice super contributions and fringe benefits.) then please don't forget to put $1,000 into your super fund as a personal non-concessional contribution to get part (or all if income below $34,488) of the government's $500 co-contribution added to your fund after you've done your tax return. It can be any super fund, even a work one that I don't advise on.

TAX-FREE THRESHHOLD

For this tax year the initial tax-free threshold is $18,200, and then there is the Low Income Tax Offset (LITO) rebate which takes one to $20 542 tax-free, then if one is 65 or older there is Seniors and Pensioners Tax Offset (SAPTO) which means a single person can earn $32,279 tax-free and married couple $28,974 tax-free each. If you then realise that allocated pensions are totally tax-free to those over age 60, most of my retired clients will not have to pay any tax.

Those who do not have to pay tax and are in receipt of franking (imputation) credits on shares or share funds should still complete the ATO form to claim back their franking credits.

INSURANCE COST INCREASES

The super funds we use have put up life and disability cover premiums by as much as 85%. Please be aware that as far as we know **all** super funds have put up premiums by a similar amount.
Any client who is not sure of what level of life and disability cover they have or should have should contact us.

REMINDER RE SUPER DEATH BENEFITS

If someone dies with money in superannuation or allocated pensions, then that goes to a spouse tax free, but if there is no surviving spouse then major children are taxed on the proceeds when paid out.

If therefore a client who is single receives the news from their doctor that the grim reaper is on his way a bit earlier than expected, then let us know and we will organise a withdrawal from super or allocated pension. That way there should be no tax to the heirs.

SUPER CONTRIBUTION LIMIT

Please remember that the limit for contribution for employer SGC 9.5% and salary sacrifice is $35,000 TOTAL (added together) for those 50 and over, and $30,000 for those 49 and younger.

It would be impossible for us to keep track of every client contribution into every super fund, so we cannot warn you if you have gone over or are going to go over the limit. If you think you may be near the limit please contact your salaries dept.

If anyone does go over it is not the end of the world, as they are then taxed on the excess at their correct marginal rate, so no penalty or excess tax, but there is an interest charge, so best avoided.

RETIREMENT

A few clients have asked me when I intend retiring (I'm not sure if its in hope or trepidation) and my answer is that, **body and brain permitting**, I don't intend retiring anytime soon. I'm still enjoying the work and my clients and I (possibly optimistically) feel that I'm needed, so why stop?

In fairness I am having more holidays now that my kids have flown the coop, but Lila is still here and she does most of the hard work anyway.

RISK AND FEAR IN PLAIN GREEK

When people retire with some money that they hope will provide a comfortable retirement, they have 2 main fears.

Firstly, they don't want to lose their money. Be this by way of fraud, poor investment choices, their investment manager or bank going broke and not paying out in full or any similar reduction in capital value.

The second fear is the uncertainty of not knowing if their capital will last their anticipated lifetimes.

How can one reduce these uncertainties?

With regard to loss, we generally use Colonial First State (owned by Commonwealth Bank) or Asgard (owned by Westpac) or IOOF (one of the largest independents in Australia) to reduce the going broke risk. We spread between asset types in the expectation they don't all lose value at the same time and we spread between investment managers as well. Using mostly index funds negates the risk of a manager getting it badly wrong.

The risk of loss is therefore not totally eliminated, but most certainly reduced.

With regard to running out of money, we are guided by the research I have read that currently indicates that if you spend no more than 5.25% of your capital indexed annually there is a very low (but not zero) probability of running out of money, given past returns.

That is the theory. In reality some clients prefer to spend up initially, as they prefer to do things such as travel while still able and then let old age worry about itself, but as far as I can see 5% is currently best practice advice.

YOU ARE WELCOME TO COME IN

If you have not been into see us recently it does not mean that we have lost interest in you, because we are more than happy to see our clients, offer them the best coffee in town, answer their questions and make sure there are no changes in their lives that would warrant changes to their investments or strategy. **Don't be a stranger.**

Kind Regards,

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Director