



**GOLDSCHMIDT & CO**



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## **NEWSLETTER SEPTEMBER 2016**

### **WHY ARE OLDIES WEALTHIER THAN YOUNGIES?**

A recently released study by the economics unit of Melbourne University (The HILDA Report) made clear that older people, essentially baby boomers, are considerably wealthier than younger people. Not surprising, that's the way it's always been, but apparently the gap is getting bigger in dollar and percentage terms.

There are many reasons for this. Some attitudinal, but from my reading there are 2 clear differences – the real amount they each paid for residential properties, and the amount they have in super.

30 to 40 years ago property prices were lower than they are now, even adjusting for inflation. Interest rates were of course a lot higher, so the comparative monthly cost was not very different to today, but the value of the mortgages were lower and easier to pay off compared to salaries.

Today's young homebuyers pay a lower interest rate on their mortgage, so repayments are similar, but their mortgages are higher as multiples of their salaries, so much harder to pay off and to increase equity in their property.

So that's one big difference. Oldies don't have mortgages and young people have big mortgages without much equity.

The second, and easy to understand, main reason is that today's 65 year olds are getting the benefits of 20 plus years of super. The youngsters have not had the benefit of compounding yet.

It is also logical that younger people are so busy paying mortgages and raising kids, that salary sacrificing into a super fund they can't touch for 30 years is the last thing on their minds. Lucky baby boomers have paid all their mortgages and school fees and see the benefit of paying 15% contribution tax to super rather than 39% or 49% tax in their own names. It's a no brainer that

most have woken up to, and the results show up in the big difference in super balances.

### **PERSONAL DEDUCTIBLE CONTRIBUTIONS**

Please remember that anyone who makes a personal super contribution that they want to deduct for tax purposes **MUST** lodge a "Notice of intention to claim a tax deduction" form with their super fund (not us).

### **ASSET REWEIGHTING**

With most of our clients we have taken their drawings from cash account only over the past year. This has worked well, as for a large part of the year sharemarkets were quite low.

Now that markets have gone up again it makes sense to restore the cash balance to ensure that any future downturn does not hurt as much.

For our "balanced" clients for whom we have adviser authority we will restore the cash and fixed interest to 36%. This is relatively conservative but still has 64% in Australian and global shares. (50% Australian and 14% Global).

If anyone who has given us adviser online authority does not want this done, please advise us soon. We might not do it if share markets fall before mid September!

### **KEEP AN "ORIGINALS" FILE**

A tip given to me many years ago was to keep a file with originals such as birth and marriage certificates, wills etc. Having them in one place makes it harder to lose them and on the few occasions we've had to send them somewhere we make a note on the front cover.

At the very front of the file I keep an updated list of all current investments. Should a bus get me my executor can go to the file, access all original documents and also know what investments and bank accounts I have. Unless you have a better system, please consider doing something similar.

## FRANKING CREDIT REFUND APPLICATION

Those of our clients who do not have to pay tax because their annual income is too low (allocated pensions are tax free to those 60 and above) probably do not have to do a tax return, BUT if they have franking credits from shares or managed investments like Colonial First State, Maple Brown Abbott and Asgard etc., then they should complete an "Application for refund of franking credits" form NAT4131 on the ATO site. It's money for nothing.

If you haven't done them in the past but would be entitled to a refund then past applications are available on the ATO website.

Call me if you're not sure about this.

## AGE PENSION 2017

There is a major change to the age and disability pension assets test starting 1 January 2017.

The new limits are;

LIMIT PENSIONS	Lower (full)	Upper (nothing)
Single Homeowner	\$250 000	\$ 547 000
Couple Homeowner	\$375 000	\$ 823 000
Single Non-homeowner	\$450 000	\$ 747 000
Couple Non-homeowner	\$575 000	\$1 023 000

The assets included are all investment assets (other than super in the name of a spouse lower than age pension age) plus lifestyle assets such as cars and contents.

From my observation Big Brother is watching us, so I recommend that clients do not attempt to cheat Centrelink or withhold information from them. There are however a few ways to legally reduce assets.

1. Spend some money on renovating your home. Your residence does not count as an asset, so if you increase the home asset value you are in the clear.
2. Gift \$10 000 per year, limited to \$30 000 in any 5 year period.
3. If you have a spouse younger than age pension age then super in his/her name does not count as an asset until age pension age.
4. Accept the inevitable and prepay funerals. Not as bad an idea as it seems as you get

some personal choices as to cost and procedures.

5. Refundable Accommodation Deposits (RAD) paid to an aged care facility do not count as an asset.

Since the shade out will be \$3 per \$1 000 per fortnight, or \$78 per \$1 000 per year, this is an effective penalty of 7.8%, so it is definitely worth trying to reduce assets within the law. I have said before and say again that despite this I do not recommend simply wasting money to get more age pension. Money wasted is not available to pay for cars, help kids or pay the Refundable Accommodation Deposit to an aged care facility where you would be comfortable and happy.

Denise has started inviting our Centrelink clients in to discuss their options, but if you would like to review your situation please call Denise to set up a time.

## THE FUTURE IS ALWAYS MORE UNCERTAIN THAN THE PAST

I regularly hear clients say, "I'm very nervous. The future is just so much more uncertain now than it used to be".

Well actually I don't believe it is. The future is always uncertain. The past appears more certain because by now we know what actually happened.

Today's uncertainties will be resolved for better or for worse and become certain. Then we'll look back and yearn for the good old days, (now).

## EMAIL ADDRESSES

More and more clients prefer to be contacted by email, but we don't have everyone's email addresses, so please send an email to [lila@bowgold.com.au](mailto:lila@bowgold.com.au) if you would like us to use your email address.

Kind Regards,



**DAVID GOLDSCHMIDT A.C.A.**  
**Director**

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