

RV Opens Office at the AEU



RV is opening a second office after sixteen years in St Kilda Rd.

Throughout that period our staff have assisted retiring Australian Education Union members. So it seems a logical progression to extend our services to members by opening an office in the AEU Building.

Initially the office will operate for first appointments only, with our main operation continuing from the St Kilda Rd office. Over time services at the AEU will expand, giving clients the choice of an appointment at St Kilda Rd or at Abbotsford.

We are appreciative of the assistance we have received from the AEU in bringing it to fruition.

Super, tax and Age Pension rules and the ways they interact in retirement planning are a mystery to most people. We often see AEU members who have received inappropriate or incompetent advice elsewhere and are surprised to find what a difference a personalised, articulate and clear plan can make to their retirement options and lifestyle.

Bob Parr (AEU) and Marnie Ewinger (RV) join in as Mary Bluett (AEU President) and Geoff Allen (RV) launch the new RV Office at the AEU.

RV will also continue to provide services pro-bono where the AEU refers members in financial distress, or where their life is affected by other crises such as relationship breakdown or ill health.

With RV's large base of Continuing Care clients and a strong stream of new clients referred by existing clients the demand for services continues to grow. There are now twenty staff in our St Kilda Rd office.

Above all we retain our commitment to the quality of our retirement planning services and to our ongoing client relationships – what we refer to as the RV culture or the RV way.

Continuing Care Reports

2008 Mid Year Continuing Care Reports will be posted to all Continuing Care Clients during the last two weeks of July.

Australia's population over the age of 65 is expected to grow to more than 23% of the population over the next 30 years – a proportional increase of 80%. Demand for Aged Care accommodation will grow accordingly. Entering Aged Care can be a daunting process requiring significant personal adjustment and an understanding of complex fee structures based on income and asset assessment. RV offers an expert advisory service to assist clients and their parents facing these issues.

Hostels and Nursing Homes

For many, the familiarity and stability of the family home makes it the preferred option. Services are available to assist people to stay in their home, such as the Home and Community Care Program and Community Aged Care Packages.

Others see the security, companionship and services of a retirement village as the preferred option.

However eventually health or mobility issues can mean that remaining at home or moving into a retirement village are not possible or desirable.

Hostels and nursing homes are facilities that provide residential Aged Care to approved applicants. Approval to move into Aged Care is provided through an Aged Care Assessment Team (ACAT) who determine the level of care required.

Hostels provide care to those assessed as requiring low level care. Nursing homes provide care to those assessed a requiring high level care.

The responsibility to research a facility prior to entry and clarify relevant issues such as the ratio of staff to residents, what services cost extra and rules for visitors tends to fall to the applicants children, relatives or friends.

Some Aged Care facilities offer both low level and high level care services which allows residents to stay in one location if their care requirements increase.

Accommodation Costs

Hostel costs include an Accommodation Bond which can be negotiated between the facility and the resident. Be aware that given the high demand for facilities offering a lower bond can

mean securing a place is less likely. The Accommodation Bond is like an interest free loan to the hostel which is refunded, less a retention amount, on leaving the hostel.

Nursing home costs include an Accommodation Charge. (An Accommodation Bond can also be charged by a nursing home if it is classed as an extra service facility).

The Accommodation Bond and Accommodation Charge are based on assessed assets at the time of entry and are not re-assessed if assets change in the future. Planning before entering Aged Care is essential.

In addition hostel and nursing home residents are normally charged a Daily Care Fee. An additional Income Tested Fee may also be charged depending on the resident's level of assessable income.

Certain income streams receive favourable income test assessment and can help reduce the Income Tested Fee. Careful planning can assist.

For example, where substantial assets are involved, a family trust structure can be used to reduce assessable income and hence the Income Tested Fee.

Centrelink is responsible for calculating the level of a resident's income for fee purposes.

Assessment of the Family Home

Decisions regarding the family home can impact significantly on Age Pension benefits as well as Aged Care accommodation costs.

In many cases there is a strong emotional attachment to the family home and decisions related to it are not normally made on purely financial grounds.

Depending on individual circumstances there can be financial advantages in retaining the home for a period, in selling the home or renting it out.

Seeking Advice

The Aged Care system has undergone significant change and this is likely to continue. It is important to consider all aspects regarding Aged Care before making any decisions and to seek advice to help with the complex financial considerations.

The specialist services RV offers in this area are increasingly in demand.



A Case Study – Nursing Home

Joan entered nursing home care having recently sold her family home in Murrumbidgee. Net sale proceeds were \$1.0m and she had amounts in bank accounts totalling \$300,000.

Strategy options were discussed with Joan and her family and arising from those discussions a family trust was established for Joan using the \$1.0m and \$300,000 was retained in bank deposits. The \$1.0m in the family trust was held in an insurance bond.

Relative to holding the whole \$1.3m in bank deposits, Joan benefits significantly in reduced nursing home fees. Instead of the Basic Care Fee, Accommodation Charge and Income Tested Fee totalling \$42,100 p.a. Joan pays only \$21,500 p.a., an annual saving of \$20,600 p.a.

And in addition her overall asset and income structure is more tax efficient.

Inflation Risk and Sound Strategy

Some of the most compelling illustrations of the need for quality growth investments as part of a rational long term income and asset model arise from our experiences in the early 1990's.

At that time people came to see us who had derived their retirement incomes from cash based investments over the previous decade. They had retired in the early 1980's when interest rates were above 15% p.a. and rising, and they had lived comfortably on the interest returns from cash and term deposit accounts. Interest rates above 15% p.a. were available across a decade where the annual inflation rate averaged 8% p.a.

The high inflation rate through the 1980's progressively eroded the purchasing power of their income. And the real value of their invested capital had been effectively halved over the decade.

When interest rates in the early 1990's fell quickly to 7% p.a. their real income had fallen to a quarter of what it had been a decade earlier and they were suddenly in crisis.

There is no way back from there. It demonstrates dramatically the long term risk to income and capital of an excessive focus on the short term security of capital that cash rate investment can offer.

Those who lose confidence in quality growth assets and retreat to cash in the face of falls in markets lock in losses. They tend to lose out over the medium and longer term relative to those who remain with quality assets and sound strategy through a period of negative sentiment and performance.

Inflation Risk

Reserve Bank data and opinion remain our primary source of high quality and unbiased analysis. The Reserve Bank has prominently stated its view that Australia's financial institutions remain strong and the economic outlook remains sound. It sees the significant short term decline in the share price of the key Australian financial institutions primarily as a function of sentiment rather than substance. And it sees Australia's integration with the future powerhouses of the global economy, China and India, as pivotal in its assessment of our ongoing economic strength. Inflation is viewed as the key short term risk to the Australian economy.

As we have often said, short term markets, whether strong or weak, come and go. Whatever the short term outcomes, it is essential to maintain sound strategy and structure over time.

Our planning approach retains its emphasis on satisfying lifestyle objectives using diversified portfolios with high quality assets, tiered to take account of short and longer term objectives. We retain a solid bias towards well managed Australian growth assets.

And we remain aware that those who retreat to cash, while they may derive short term comfort, can sow the seed of longer term stress. For when markets turn upwards they do so sharply and unpredictably. Sentiment shifts. And those in cash are left behind.

Protection from inflation risk over time does not lie in cash, but in quality diversified growth investment.

Client Showcase

Ann Coish & Ern Burrows

B&B Hosts – Marysville

We often hear people say, "I'd love to run a B&B" though few actually go down that road. Two Retirement Victoria clients who made it a reality are Ann Coish and Ern Burrows.

Ann taught for 30 years – both in the Technical and Secondary Divisions. Seven years ago she and her husband Ern, together with another couple, bought a B&B property at Marysville. Their business partners worked the property and they visited as they could. Having now retired they find themselves involved at the property every weekend.

Their sixty acre river frontage property is just 4.5km from Marysville on the Buxton Road. Seven cottages nestle in cottage gardens and all face a lake filled with trout. Guests can enjoy the food and wine in their fully licensed restaurant. Three luxury, self contained cottages are also available featuring spa baths and wood fires – perfect for Marysville in the snow season.

Both Ann and Ern have spent their lives working with people and this hasn't changed. They are active hosts and Ann has learnt to be both a hostess and waitress in the restaurant – still smiling, still talking.

If you are coming to Lake Mountain, Eildon, Marysville or the Yarra Valley, take the opportunity to enjoy Maryton Park.



Maryton Park B&B, Country Cottages & Cumquat Tree Restaurant

Maryton Lane, off the Marysville-Buxton Rd, Marysville
PH: 5963 3242
www.marytonpark.com.au

Topical Issues

ESSSuper Pension and Age Pension Errors

If you are Age Pension age and receiving an ESSSuper retirement pension it is possible that your entitlement to Age Pension is not being correctly assessed by Centrelink.

Under the rules introduced from July 2007 most ESSSuper pensioners, whose pensions commenced after 30th June 1994, became entitled to have part of their pension treated as an exempt proportion for the purposes of the Age Pension income test.

For those whose constraining test for Age Pension is the income test, exemption of part of the ESSSuper pension from testing would lead to an increase in Age Pension entitlement. Some Age Pension could also become available to others who were previously above the income test limit but now fall within it.

In one situation we addressed for clients 52% of their ESSSuper pension was exempt, leading to an increase in their combined Age Pension entitlement of some \$6,000 p.a.

ESSSuper provides a datafeed to Centrelink which they state contains the information necessary for Centrelink to determine and apply the exempt proportion to existing Age Pensioners and new applicants for Age Pension.

Our experience is that Centrelink's use of the data is something of a patchwork. It has been applied for some people but ignored for others.

Clients who are Age Pension recipients or applicants need to check that the new rules are being properly applied to them. If you have any doubts, or if the whole of your ESSSuper pension is being assessed under the Age Pension income test then seek a review by Centrelink.

If Centrelink claims not to have the data relating to your exempt proportion, your RV Adviser can assist in obtaining it from ESSSuper.

Transition to Retirement Strategy

The option to enhance benefits through the commencement of a transition to retirement strategy is often overlooked by those looking at commencing an ESSSuper pension and returning to work on contract.

The strategy involves commencing transition pensions from some super capital at the time of returning to work, thereby creating the opportunity for an enhanced level of salary sacrifice to super from contract salary. The tax and savings efficiencies can be significant.

There can be multiple benefits:

- the regular income from the pensions has an exempt component for tax purposes and the component which is taxable is subject to a 15% tax rebate.
- there is no tax on the earnings or growth in the transition pension.
- receipt of transition pension income permits a higher level of salary sacrifice of employment income such as contract teaching income. This can dramatically enhance saving capacity in the period to retirement.
- for those aged 60 and over transition pensions are exempt from all tax.

Building an appropriate retirement model involves many elements. The use of a transition strategy to enhance the overall income and capital position can form part of the effective development of retirement strategy.

RV Advisers use transition models as part of overall retirement strategy in looking at efficient models for clients across their planning periods. If you are approaching retirement or considering 54.11 resignation it would be beneficial to contact RV and set up an appointment to discuss your options.

Staff Snapshots

Staff Conference 2007/8

RV holds an Annual Conference attended by all staff each year. It provides the opportunity for specialised training and rewards all staff with an enjoyable experience in appreciation of their work on behalf of clients and RV.

Christchurch, NZ was the venue for our Conference in November 2007- four days from Thursday to Sunday. Christchurch is surprisingly easy to reach (three hours by Jetstar from Tullamarine) and the strength of the \$A makes NZ relatively inexpensive. Christchurch is a beautiful, compact city and wonderful to stroll around.

Training sessions were led by Alan, Geoff and Bob Parr (from the AEU) with a focus on the New World of Super, The Needs of Teachers, and RV Client Services.

It was not all training of course. Akaroa, an historic French settlement nestles in the crater of an ancient volcano 75km from Christchurch. The staff photo was taken at the Hilltop Café on Banks Peninsula looking towards Akaroa harbour.



About RV Client NEWS



RV Client News is written and published by Retirement Victoria as a service to clients.

Retirement Victoria are specialists in public sector retirement strategy and are the Australian Education Union's preferred provider of financial and retirement planning services to members.

The information in RV Client News is of a general and summary nature only and is neither represented as, nor intended to be, personal advice on any matter. No person should act on the basis of the information contained herein but should seek appropriate professional advice based upon their own personal circumstances.

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