

## Change to the Assessment of Defined Benefit Pensions under the Centrelink Income Test

In our winter 2015 edition of RV News, we ran an article on some of the Federal Budget announcements. Of particular relevance was the change to the Centrelink assets test commencing from 1 January 2017 which effectively lowers the threshold at which a Centrelink pension such as an Age Pension cuts out. We also touched on the change coming into place on 1 January 2016 as to how defined benefit pensions such as an ESSSuper pension will be assessed under the Centrelink income test.

There are a substantial number of Retirement Victoria clients who are in receipt of a Centrelink pension and a defined benefit pension (typically an ESSSuper pension) who will be affected by this change. Centrelink have written to those in receipt of an income support payment (such as an Age Pension) and a defined benefit pension.

ESSSuper pensions usually have a component that is not assessable under the Centrelink income test and this component is referred to as the 'deductible amount'. For our clients this is often around one-third of the gross pension received, but can be greater. The deductible component helps reduce assessable income and can lead to a greater Centrelink pension entitlement for those assessed under the income test.

From 1 January 2016, the deductible amount will be capped at a maximum of 10% of the gross payment received. For most RV clients in receipt of an ESSSuper pension, this will mean an increase in assessable income. The following case study provides an example of the impact on Age Pension entitlement as a result of the change.

This change does not impact the way a defined benefit pension is taxed nor the gross payment received. In addition, it does not impact assessment of defined benefit pensions for the Commonwealth Seniors Health Card.

*John is 65 and a retired single homeowner in receipt of an ESSSuper pension of \$30,000 p.a. with a deductible portion of 30%. This means \$9,000 p.a. of John's pension payment is currently not assessable under the Centrelink income test. He commenced an account based pension in July 2015 and the balance is currently \$250,000 and he has cash reserves of \$50,000. Car and home contents are valued at \$30,000 in total.*

*His Age Pension of \$370 per fortnight is determined under the income test. On 1 January 2016, the deductible percentage will be limited to 10% of his gross pension. Assessable income will increase by \$6,000 p.a. and this will reduce John's Age Pension to around \$255 per fortnight.*

For some clients this change will have no impact on Age Pension entitlement, for example where Age Pension continues to be determined under the assets test. For others it may lead to a substantial reduction or even loss of Age Pension depending on an individual's financial situation.

**Financial strategies may need to be reviewed to ensure income needs continue to be met. You are encouraged to discuss any concerns you have with regard to this change with your Retirement Victoria adviser. ○**

## Christmas Message

On behalf of the management, advisers and staff at Retirement Victoria, I would like to take this opportunity to wish all of our clients, the staff and members of the AEU, together with their families a safe and happy time during the end of year festive season.

We hope you stay safe, enjoy your travels and experience health, happiness and success in the year ahead.

**Hugh Dickson**  
Managing Director



# The Real Value of your Financial Adviser

As clients of Retirement Victoria you will have interaction each year with your adviser and our staff through our ongoing service commitment which is outlined in our 'Client Continuing Care Program' pamphlet.

There is a clear danger, however, in thinking that the fees charged are directly related only to the individual items which are listed in the Continuing Care Program. We are clearly able to identify all of the meetings, direct contacts, mail-outs and invitations which were extended to you during the course of the year.

But how are we able to establish a fee or describe a service which relates to the provision of understanding, guidance, assurance, comfort, confidence and peace of mind? These are emotions which emanate from the relationship you have with your adviser. From the initial exploration and understanding, by your adviser, of your current situation and objectives for the remainder of your lives; to the analysis of your position and creation of an appropriate strategy which provides you with a roadmap to the future; to the presentation of this strategy in your Statement of Advice.

This is the real value of your financial adviser.

To the ongoing availability for any phone contact you make when decisions are required. Should we proceed with a lump sum withdrawal? Should we go ahead with a large purchase? Should we modify our retirement income stream? How should we deal with our estate? Or should we switch into cash and other defensive assets in light of the past and any future global financial crises?

This is the real value of your financial adviser.

Or simply a phone call to ask why investment markets are down; to clarify a legislative announcement in the media; to have explained a change to Centrelink, Aged Care or taxation conditions. To be able to have a full review meeting whenever necessary or if we simply wish to get together.

Finally, to be able to travel for extended periods of time knowing someone is available whenever you need them.

This is the real value of your financial adviser. ○



## Kristi Badgery

Kristi Badgery recently became the third of our current staff to celebrate 10 years of service to RV and our clients. Kristi is one of our experienced Paraplanners and has made a wonderful contribution to the business in various roles during her ten years.

More importantly she and Phil have had two children and Kristi has taken extended parental leave while the children are pre school age. She is currently working three days a week. To top it off, Kristi has found time to study and has gained her Advanced Diploma of Financial Planning with a view to a long term goal of becoming a practicing financial planner. Multi-tasking at its best from a woman who is well respected and well liked by all.

Congratulations to you Kristi and thank you for 10 years of quality service. ○

## Is salary sacrifice to superannuation still a good strategy?

Many of our clients who are still working have questioned the value of salary sacrificing to superannuation in light of the seeming endless changes in superannuation legislation. Salary sacrifice to superannuation however remains one of the most effective ways to boost your capital while potentially paying less tax.

By having your employer pay part of your pre-tax salary into super you can build a significant lump sum, while potentially reducing the tax you pay. Yet recent research shows fewer Australians have been using this simple but powerful strategy since the GFC.

The proportion of people choosing to salary sacrifice has slipped from 24% to 17% over the past 10 years<sup>[1]</sup>. Even more worryingly, 5% fewer women than men have been salary sacrificing to superannuation, despite being likely to retire with less super due to lower salaries and more frequent career breaks.

Here are three good reasons to take a fresh look at salary sacrifice and consider making it part of your financial strategy:

### 1. A small sacrifice today can make a big difference tomorrow

You can make a big difference to your balance at retirement by making relatively small contributions over time.

For example, a 40-year old who is earning \$90,000 a year could end up with \$75,988 (assuming a 5% return on average) more in their super by the time they turned 60, simply by salary sacrificing 3% of their salary each year. That's a mere \$104 per fortnight before tax — which equates to around \$63 from their take home pay.

### 2. It is tax effective

Salary sacrifice also has the benefit of reducing the amount of tax you pay now. That's because your contributions come from your before-tax pay, lowering your assessable income for tax purposes. The money you salary sacrifice into your super is taxed at 15%. If you're paying a tax rate of more than 15%, this could save you significant tax, while enabling you to add more to your super than you could with an after-tax investment.

For example, if you're currently paying tax at a rate of 39% (including the 2% Medicare Levy), the net amount contributed to superannuation is nearly 40% more than the equivalent after tax amount.

### 3. It is easy

You simply instruct your employer or salary packaging organisation to pay some of your pre-tax salary as super. That money then goes directly

# Aged Care Accommodation

## – Choices for the Elderly

According to the Australian Bureau of Statistics, over the next 40 years Australia's population over the age of 65 is expected to grow to more than 23% of the population – 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.

### At Home Help

For many, the familiarity and stability of the family home makes it the preferred option. Home Care Packages are available to assist people to stay in their home and provide a range of services such as personal care, home maintenance, transport and health support. These services can help prevent a premature move into Aged Care accommodation.

### Granny Flat Interests

A granny flat interest involves the transfer of property or cash in exchange for the right to accommodation for life. It is usually a family arrangement to provide company, nearby help and support for an elderly relative. There are potential costs such as stamp duty and capital gains tax associated with transferring assets.

### Retirement Villages

Retirement villages are purpose built accommodation for those over age 55. Units are either purchased or occupied under a lease or other form of agreement. An entry contribution is paid to secure an individual's place in a retirement village and the form of the entry contribution depends on the legal structure of the village. A departure fee is payable on leaving the retirement village, which is usually a percentage of the entry or resale price.

### Aged Care Accommodation

Eventually health or mobility issues can mean that remaining at home or moving to a retirement village is not possible or desirable. Approval to move into Aged Care and determining the appropriate level of care is provided through an Aged Care Assessment Service (ACAS). Referral to ACAS can be through a range of avenues such as a GP, nurse at a hospital or social worker.

The responsibility to research an aged care facility and clarify relevant issues such as the ratio of staff to residents, rules for visitors and whether palliative care is provided, tends to rest

with the applicant's children, relatives or friends.

### Aged Care Costs

The Australian Governments Aged Care reforms commenced on 1 July 2014 and removed the distinction between high and low level care, which removes the link this had to the type of accommodation payment required.

Central to the reforms is the adoption of a 'means tested amount' which is calculated using both assessable assets and assessable income and is used to determine both entry fees and ongoing fees. This is a change from previous rules where only assessable assets were used to determine the accommodation payment and only assessable income was used to determine any income tested fee payable in addition to a basic daily care fee. The former home will be included in the calculation of the means tested amount although exemptions can continue to apply, and the home value is capped.

The means tested amount is used to determine whether a resident has sufficient means to pay an entry fee. Residents have the choice of paying this entry fee as a fully refundable lump sum, regular periodic payments or a combination of both. Aged care facilities are required to publish accommodation prices for available rooms and residents are not required to select how they will pay for accommodation until they have been in care for 28 days.

Extra service fees can apply to residents in facilities that offer extra services related to accommodation or entertainment. These fees do not provide a greater standard of care.

### Assessment of the Family Home

Decisions regarding the family home can impact



on Age Pension or Department of Veterans' Affairs benefits and aged care accommodation fees. Decisions relating to the family home are often not based purely on financial grounds and in many cases, there can be a strong emotional attachment to the family home.

Depending on individual circumstances, there can be a financial advantage in retaining the home and renting it out. However, this could require significant capital to be spent on renovations and could be problematic in terms of paying an entry fee. Careful planning can assist.

### Seeking Advice

The Aged Care system has undergone significant change and issues around the former home continue to be complex. It is clear that the need to seek financial advice is now further reinforced.

It is important to consider all aspects regarding Aged Care before making any decision and to seek advice to assist with the complex financial considerations.

The specialist service Retirement Victoria offers in this area is increasingly in demand from AEU members and clients who are taking on the responsibility of helping relatives through the process of entering into aged care. Where possible, planning ahead to take advantage of any strategic opportunities should be considered. ○

\* Source: [www.abs.gov.au/ausstats](http://www.abs.gov.au/ausstats)

# SMALL CHANGE

## KYIT

As we go to print on this edition, our annual client seminar, called "Keeping You In Touch", is taking place in Melbourne. Clients attending will be well informed about economic and financial issues by John Owen, who is a Portfolio Specialist at NAB Asset Management. They will be entertained and enthralled by Vinh Giang who is a magician, entrepreneur and teacher.

## RV News by Email

We are, along with the AEU, very conservation aware and use recycled paper for printing this publication and for the envelopes to post it in. However, we can go further with the use of email. Being a modest four pages in length, RV News is well suited to email distribution and we are geared up to deliver it in the same easy to read format.

If you would like to receive future editions by email, please email us at [reception@retirevic.com.au](mailto:reception@retirevic.com.au). Simply say "RV News by email please" and for identification purposes provide your full name and the name of your Adviser. We

will make the change for our next edition and be assured we will not use the email facility for anything other than official RV business relating to you.

## Appointments

To arrange an appointment with an RV Adviser please phone (03) 9820 8088

## Office Closure over the Festive Season

Please be advised that RV will close at 1pm on Thursday 24th December, and re-open at 8.15 on Monday 4th January 2016.

## Pre-Retirement Seminar Program

The first two seminars scheduled for 2016 will be held at the AEU Office 112 Trenerry Cres, Abbotsford on **Tuesday January 19th** and **Saturday March 5th**.

Please make bookings via the portal on the AEU website: [www.aeuvic.asn.au/retirevic](http://www.aeuvic.asn.au/retirevic)

into your super. This is in addition to the super guarantee contribution (currently 9.5% of your salary) that your employer already makes for you.

## Concessional Contribution caps

Salary sacrifice and Employer Super Guarantee contributions are known as concessional contributions. There is a cap on concessional contributions. For the 2015-16 financial year the cap is \$30,000. If you were aged 49 years or over on the last day of the 2014-15 financial year, your cap is \$35,000. If you exceed your contribution cap the amount of your excess concessional contributions are included in your assessable income and you pay an interest charge.

The potential benefits of salary sacrifice are too effective to be ignored.

**If you are still working and not salary sacrificing at present or you are unsure of the efficiency of your current salary sacrifice your Retirement Victoria adviser can help ensure you have the best structure in place.** ○

[1] Jun Feng and Paul Gerrans, *Patterns of voluntary worker retirement savings: a longitudinal analysis*, 2014.

## CLIENT PROFILE Yellingbo Art House

Featured on the LifeStyle Channel's Grand Designs Australia, Yellingbo Art House is a one-of-a-kind home that encapsulates the work, life and considered thinking of an arty Melbourne duo who are clients of Ed Paterson here at RV.

Art teacher and sculptor **Laurie Smith** and his wife **Renee Houreau**, a trained artist who turned web designer, are both zealous art lovers; so joy of joys when, after years of searching they found the ideal block to create their "sculpture in space". It's almost as if this picturesque piece of Victoria, with its red alluvial soil, was designed especially for their new dream home. Their vision was to create a sort of domestic gallery that would inspire both inside and out. A modernist cube shaped construction of steel, stone and glass that celebrates and pays tribute to some identifiable artistic references. This is a place to live, work, create and display their extensive art collection in equal measure. Inspiration came from many sources – for example, the 25 metre long facade with its tricky curved window is reminiscent of a well known state library.



The couple were clear they wanted a single-living home comprising one large open-plan living area, three bedrooms, a bathroom, en-suite, garage, and two inspiring studios.

One suited to the messier nature of Laurie's endeavours, and the other for Renee's more high-tech work.

"We were confident that because of our mutual taste and sense of design, whatever the shell of the house was going to be, we were going to be able to enhance it. The things we needed to get right were the main structure components: the stone, glass and the steel." emphasises Renee.

If you would like to know and see more, please google Yellingbo Art House and the wonderful gallery that Laurie and Renee created will come to life. ○

