Money Matters

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Winter 2016 Edition

Welcome to the May 2016 edition of our Money Matters Newsletter. We have included articles covering the recent Federal Budget, investment market movements, as well as updates on the Age Pension and Aged Care Costs and other important matters.

Inside this Edition:

FEDERAL BUDGET 2016

The Government outlined the details of the 2016-17 Federal Budget on 3 May 2016. The following proposed measures may be relevant to you:

- From 1 July 2017 the Concessional Contributions cap will be reduced from $30,000 (and $35,000 for people aged 50 and over) to $25,000. This includes your 9.5% employer super guarantee payment and salary sacrifice contributions.
- From Budget night (3 May 2016) a lifetime limit of $500,000 will apply to personal non-concessional contributions. This includes any personal non-concessional contributions made since 1 July 2007. This new lifetime limit replaces the $180,000 annual limit.
- From 1 July 2017 a $1.6 million cap will apply to the total amount of superannuation that can be converted into an allocated pension. Any amount above this will have to remain in or be transferred back to accumulation phase.
- From 1 July 2017 individuals aged 65 to 74 will no longer have to meet the 40 hours in 30 days employment test to be eligible to contribute to superannuation.
- From 1 July 2017 individuals up to age 75 will be able to claim a tax deduction on personal super contributions up to $25,000 per annum, regardless of their employment status.
- From 1 July 2017 an extra 15% superannuation contribution tax will apply to the standard 15% contributions tax for individuals who earn more than $250,000 per annum.
- From 1 July 2017 the tax exempt status on TTR (Transition To Retirement) Pension will be lifted for individuals aged under 65.
- From 1 July 2016 the $80,000 tax threshold will increase to $87,000, providing a tax saving to anyone earning more than $80,000 per annum.
- From 1 July 2017 the 2% repair levy on taxable income in excess of $180,000 will be ended

It should be pointed out that at this stage these measures are just proposals and may change before they are made law, or may not go ahead at all if there is a change in government.

ANNUITY MATURITIES

Between 1998 and 2004 we put in place a significant number of Term Annuities for clients as at the time the money invested in those Annuities was 100% asset test exempt for the age pension. Most of these Annuities were established with Challenger and Tower (TAL). Most of these Annuities had 15 year terms applied to them. We are now seeing many of these Annuities maturing which means those clients will incur a significant reduction in their annual income position. We will need to see those clients prior to the maturity of their Annuity so that we can review their financial and income position. We will endeavour to contact those clients with these Annuities prior to their maturity, however, if you are aware that you have such an Annuity that will be maturing in the next few months you should make a time to see your LFS adviser.

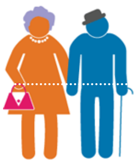
AGE PENSION NEWS

We outlined in our last Newsletter that changes will be applying to the Age Pension Assets Test from 1 January 2017.

For single pensioners this will see an increase in the allowable amount of assets to receive the full pension from $205,500 to **$250,000**. Single pensioners with assets between $205,500 and $289,500 will actually receive an increase in their age pension if they are currently assets tested. Single pensioners with assets between $289,500 and $547,000 will incur a decrease in their age pension if they are asset tested. Single pensioners with assets over $547,000 will lose their age pension. This is a decrease from the current single pensioner assets test cut off amount of $788,250.

For coupled pensioners the changes will see an increase in the Assets Test full pension allowable amount from $291,500 to **$375,000**. Couples with assets between $291,500 and $451,500 will actually receive an increase in the age pension if they are asset tested. Asset tested couples with assets between $451,500 and $823,000 will incur a decrease in their age pension. Couples with assets over $823,000 will lose their age pension. This is a decrease from the current couples assets test pension cut off amount of $1,023,000.

Those pensioners who lose the age pension will be able to receive the Commonwealth Seniors Health Card (CSHC). Eligibility to the CSHC is based on "Adjusted Taxable Income" rather than Centrelink assessable income. In order to be eligible singles must have Adjusted Taxable Income under $52,273 and couples under $83,636. Adjusted Taxable Income is Taxable income plus deemed income on allocated pensions and 90% or more of income from Defined benefit Pensions.



If you want to know if the 1 January 2017 changes will have an impact on your age pension please make a time to see your Leishman Financial Services adviser.

AGED CARE FEES

Aged Care Fees can be a bit of a minefield to traverse, so we have decided to provide an updated explanation. There are essentially three sets of fees:

Daily Care Fee: This is paid by everyone and is currently $48.25 per day ($17,611.25 per annum). This is currently 77.5% of the full single age pension.

Means Tested Care Fee (MTCF): This fee is based on your Income & Assets. If your annual income (including your age pension) is above $25,659, and your assets are above $159,423, then you will have to pay an MTCF. The maximum MTCF you can be expected to pay is $25,939 per annum plus there is a lifetime cap of $62,255.

Accommodation Charge: This can be paid as either an ongoing fee (known as a Daily Accommodation Payment or a DAP), as a lump sum (known as a Refundable Accommodation Deposit or RAD), or a combination of both. Any outstanding amount of Accommodation Charge is paid to the Care Facility based on a nominal interest rate (currently 6.28%). If you have assets less than $46,500 you cannot be asked to pay an accommodation charge. If you have assets between $46,500 and $159,423 then you have to pay an accommodation contribution, which is an amount based on your income and assets. If your assets are more than $159,423 then you have to pay an accommodation payment, which is the amount as advertised by the aged care facility.

Some Aged Care facilities may also charge a fee for extra services which may be optional or mandatory depending on the facility and the services they provide.

If you retain your family home and rent it out then the value of the house and the rental income will not count against your age pension. However the first $159,423 of the value of the house, and the rental income, do count towards calculating your MTCF and your accommodation charge.

Any amount of RAD paid does not count as an asset for the age pension, however it does count towards calculating your MTCF and your accommodation charge.

We can provide specialised advice on this area for existing clients as part of our ongoing service, or for a fee to new non-clients.

MARKET REVIEW

To the end of April 2016 the Australian share market was down 7.93% for 12 months, however since mid-February 2016 it was up 10.38%. The downturn experienced in early 2016 was mainly due to negative market sentiment coming out of China, the large drop in oil prices, and concerns that the US was going to start lifting interest rates. Since then, the Chinese market and oil prices have stabilised, and while the US is likely to raise interest rates again it will probably not be in the near future. The US share market was down only 0.37% for the 12 months to the end of April 2016, but like the Australian market, has risen considerably since mid-February to be up 13.5%.

On 3 May 2016 the Reserve Bank of Australia dropped the official interest rate to an all-time low of 1.75%. While there have been signs of economic improvement inflation figures are expected to continue to be low, which means we may even see a further drop in official interest rates. Compared to most other countries Australian interest rates are still relatively high. In Australia the low interest rate environment has seen high performance in the property market, with listed property securities returning 10% for the 12 months to 30 April 2016. Of course lower official interest rates have also resulted in cash deposit rates dropping too, with most 12 month term deposits now only paying around 2% to 2.5%.

HOW MUCH CAN I HAVE IN THE BANK?

This is a question we often get asked by our age pension clients who are worried about their age pension reducing. The answer is totally dependent on the value of your other assets, particularly your financial assets. Financial assets include your bank accounts as well as your term deposits, shares, managed funds and those allocated pension accounts that were established after 1 January 2015. These are all grouped together by Centrelink and "deemed" to earn a rate of income based on the deeming rates*. Under the current deeming rates a single person can have up to $152,030 in financial assets before their age pension is reduced. For couples they can have up to $267,600 in financial assets before their age pension is reduced. These amounts assume that you do not have any other sources of assessable income.

Example: John, a single pensioner, has $120,000 in shares and managed funds. This means he can have up to $32,030 in the bank before it will reduce his age pension.

Age pensioners also have to take into consideration the assets test, so even if their financial assets are below the above levels, they may get caught out under the assets test due to their non-financial assets. Under the current assets test thresholds a single person can have up to $202,500 in assets before their age pension is reduced, and a couple can have up to $291,500 in assets. As mentioned in our Age Pension News section these rates are due to increase on 1 January 2017. Pensioners need to realise that while this applies to their overall assets, they may find they are still impacted under the income test if their financial assets are in excess of the above-mentioned amounts.

*Current Deeming rates:

Single: 1.75% on the first $48,600 & 3.25% on the amount above $48,600

Couple: 1.75% on the first $80,600 & 3.25% on the amount above $80,600

WITHDRAWALS

We would like to confirm client expectations in relation to withdrawals. Clients need to allow 10 to 14 business days in most cases to have money paid to them from their investments. If the amount that is being withdrawn can come from the cash account in your investment, then you should be able to receive the money in five business days. However if the withdrawal has to come from the managed funds in your investment, then you have to wait for the funds to be sold down by the fund manager before the money is available; this usually takes 10 to 14 business days, depending on the fund manager. We know that it can be frustrating to wait this long for the money so we encourage clients to give plenty of notice when wanting to make a withdrawal, or make sure they have sufficient amounts set aside to cover any anticipated cash requirements. This is an area we always check with you at your review meeting.

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Don't forget to keep your details up-to-date! Including your email address.

FDS & RENEWAL NOTICES

As of 1 July 2015 the government requires us to send all of our clients a Fee Disclosure Statement (FDS) on a yearly basis. These will be sent out to all our clients in monthly batches. The FDS will outline for you all of the services that are available to you as an LFS client, and will indicate for you which services you actually received from LFS over the previous 12 months. The FDS will also advise you of how much LFS has been paid for these services as an Ongoing Service Fee over the previous 12 months. These ongoing fees do not include the fees that you pay to the financial products you are invested in, these product fees are fully disclosed in the annual statements from the product providers. You do not need to take any action upon receiving the FDS.

As well as receiving an annual FDS, those clients who first invested with LFS after 1 July 2013 will also receive a Renewal Notice every two years. This Renewal Notice requires the clients to confirm that they wish to remain LFS clients and wish to continue having LFS paid accordingly. It is vital that you sign and return this to us so that we can continue to provide you with our services. If the Renewal Notice is not signed and returned to us within 30 days of its issue we will be obliged, by law, to discontinue our services to you and halt the payment of any fees we receive from you. Please take action if you receive a Renewal Notice.

MOVEMENTS AT THE STATION

We would like to welcome Sharron Cawsey as a permanent member of the LFS team. Sharron will be providing back up to Nicole, Kathleen and Shelley as well as overseeing our FDS and Renewal Notice processes. Sharron has had previous experience in the banking industry so makes an experienced and highly valued addition to our team. All the other team members are still here providing their familiar roles. We also wish to extend our congratulations to Chris (Harry) Harrower on his recent 10 year anniversary with LFS, and to Kathleen Kops who reaches the 13 year service milestone this year.

Our Website has been up and running for the last year, and we invite you to have a look and provide any feedback to us; www.leishmans.com.au

We are trying to keep our email records current and accurate, as well as determine which clients would prefer to receive communications such as this newsletter, via email. Please make sure we have your current email address by advising us at info@leishmans.com.au Thank you.