Money Matters

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Winter 2019 Edition

Welcome to the May 2019 edition of our Money Matters Newsletter. We have included articles covering the recent Federal Budget, investment market movements, as well as Centrelink update and more. For more information about any article please contact your adviser. This newsletter is for general information purposes only.

Inside this Edition:

FEDERAL BUDGET 2019

The April 2nd Federal Budget had very little in the way of proposed changes that will impact financial markets or the majority of investors. Perhaps the 2 most notable proposals are the increase in the superannuation contribution age to 67, and the reduction in personal, income tax rates to come into effect from 2022 & 2024. As both of these are yet to go through parliament to become legislation, there is little point outlining their detail until after the Federal Election. Last year the Federal Government also capped the Age Pension qualifying age at 67, scrapping the proposed increase to age 70.

In contrast, the ALP have proposed significant changes to the tax system that may negatively impact many individuals and potentially both the stock market and the property markets, including the cessation of imputation credit refunds to non-Centrelink Income Support recipients, and the reduction of the 50% capital gains tax discount rate to only 25% for assets purchased after 1/7/2020. The current tax rules for both of these policies were introduced in 2000 to help offset the cost of the GST to low-income families. The abolition of refunding unused imputation credits will negatively impact self-funded retirees, as well as low income families. Further proposals include a cap of $3,000 on accounting and tax preparation costs for individuals and trusts. Borrowing in self-managed super will become more difficult with the proposed banning of Limited Recourse Borrowing Loans (this is how Self-managed super funds borrow to buy property). A further impact on the property market will come from the proposed changes to negative gearing from 1/1/20. The other negative aspect of the ALP's proposed policies is the reduction of the super contributions limit from $100,000 pa to $75,000 pa and cancelling the unused carry forward cap. The coalition has made it hard enough for individuals to fund their super just prior to retirement, these proposed changes would make it even more difficult.

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Seniors Downsizing Super Contribution

From 1 July 2018, people aged 65 and are able to contribute up to $300,000 from the proceeds of the sale of their home to superannuation without having to meet the work test obligations. This means that if a couple sell their home they can contribute up to $600,000 ($300,000 each to superannuation). The main advantage of being able to do this is so that the proceeds made to superannuation can then be converted into a non-taxable retirement pension. The following rules apply to this measure:

- You must be 65 or older at the time of making the contribution;
- The contract of sale must have taken place after 1 July 2018;
- You must have owned and lived in the home for at least 10 years prior to the sale;
- The proceeds can only come from the sale of your home;
- The contribution must be made within 90 days of receiving the sale proceeds;
- The contribution can still be made if your super balance exceeds $1.6 million (though the contribution does count towards the allowable pension transfer limit of $1.6 million);
- You can only make downsizing contributions from the sale of one home, you cannot do it again from the sale of a second home at a later time.

MARKET REVIEW

The last 6 months has been turbulent for the Australian financial markets. After reaching its post GFC peak in August, the ASX200 proceeded to lose 13.8% by December and then recovering by 13.9% to the end of March 2019. At the time of publishing, the ASX200 is still 115 points, or 1.8% down from the August 2018 high. For the 2 years since April, 2017, the ASX200 is up over 6% in total. The UK's FTSE index is just 1% below where it was 2 years ago, and Germany's DAX is down over 7% for the same period. While the media talks down Asian economies, the Hong Kong Hang Seng index is up over 21% from April 2017 to March 2019 and Japan's Nikkei 225 is up 16.15% for 2 years. The Dow Jones for the same period has had a 26.6% total return. As you can see, there are lots of varying numbers in the 2 year results, with Australia sitting in the middle of them all.

Our interest rates remain low, with a likely further drop in the near future, while globally, upward pressure on interest rates saw the fixed interest markets falter late 2018. Fortunately, as is usually the case, this was a short term correction in the fixed interest markets. It has led us to be very cautious on global fixed interest for the near future.

Our listed property market (known as A-REITs, Australian real estate investment trusts), which was made up of a total of 45 companies as at 2012, now the AREIT 100 index has just 31 stocks in it. For this reason, we have kept our AREIT specific exposure at zero and are leaving the inclusion of AREIT stocks up to the underlying Australian Share Fund Managers.

Portfolio Changes

In late March / early April, we sent out over 800 letters and forms to clients in MLC Navigator, NetWealth and Wealthtrac to alter their current portfolio allocation. This provided the opportunity to change allocation to a number of Funds for specific reasons and to re-balance the portfolio back to the benchmark asset allocation relevant to each client's risk profile. If you have not yet signed and returned your forms please make this a priority. If you think you might not have received the advice package please contact our office.

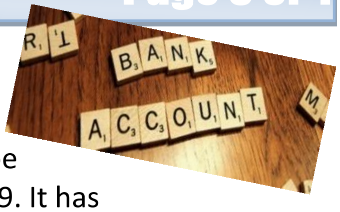
Scam Callers

More and more fraudulent callers are trying to scheme people out of their hard earned savings. If you receive a call from ANYONE that seems suspicious, NEVER give them your bank details, or your credit card number, or access to your computer. NEVER share your banking password or PIN number or Secret Code from your bank. Your bank or financial institution will not call and ask for your PIN or security code.

If someone calls and says "your computer is not working properly" respond to them by saying "I do not own a computer." It is likely they will promptly hang up. The tax office will NEVER call you, they do everything in writing or through MYGOV.gov.au. Similarly, if you actually owe Centrelink money, they will write to you and tell you. If you get a call saying there has been a warrant issued for your arrest by the ATO, hang-up, this is a scammer. If you are asked to buy I-tunes or other vouchers and to call back with card numbers, do not do this.

These scammers are a scourge on our community and we have to make everyone aware to stop them from winning. Ask for a return phone number to call them back later, then ring us. Chances are they wont give you a return number, another indication that it's a scam. Be suspicious, not trusting of people calling you randomly. We have all had these types of calls.

AGE PENSION & BANK ACCOUNTS



In the 2018 Federal Budget it was announced that the Age Pension Work Bonus would be extended from $250 per fortnight to $300 per fortnight. This is effective from 1 July 2019. It has also been extended to contractors and self-employed persons, not just employees. So if you are working, after age pension age, the first $300 per fortnight that you earn will be exempt income for the Income Test.

Over time we have found that many clients' bank account balances can build up, or be depleted from spending. As a result the amount clients' end up having in their bank accounts can be considerably different to Centrelink's records. If Centrelink are able to uncover this information they may end up doing an audit and ask you to pay back some of your Age Pension. It is therefore very important that you update us on your bank account balances at least once every 12 months, especially if the balances have gone up. This can be done by sending us an e-mail, sending us a letter or contacting us by phone.

We also encourage you to make a time to see your adviser at least every 12 months, so it is recommended that you bring any current bank account balances with you so as we can compare them to what Centrelink have on record. If you own direct shares or other investments not managed by LFS, your annual review is also the time to provide us with current share holding details and details of these other asset to update Centrelink for you.

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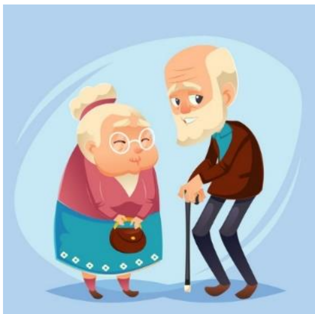
AGED CARE – don't do it alone

Over the past 2 years we have been speaking with an increasing number of families about Aged Care options for their loved ones. We are working closely with an Aged Care Advocate from "Well Placed Care" to make sure our clients can get the best deal possible from their chosen facility. Nursing homes will tell you that Bonds (known as RADs, Refundable Accommodation Deposits) are not negotiable, but they can be negotiated, as can Extra Service Fees. This area is fraught with intricacies and can be extremely complex.

There are up to 4 levels of fees charged by a nursing home. Some of these are determined by the Department of Human Services, and some are charged by the home directly. Some are based on your assets and income, some are statutory or flat fee.

The inclusion of the family home may be exempt under some circumstances, and the method of funding the RAD or DAP (Deferred Accommodation Payment) is confusing.



The good news is that for existing LFS clients, we do not charge an additional fee for this advice.

For those new to LFS, the cost of the first hour-long consultation is complimentary, after that we charge a low $250 per hour advice fee.

So if you have a friend, or loved one, looking at aged care, talk to us now.

LEAVING YOUR FAMILY HOME FOR HEALTH REASONS.

If you have to leave your family home for health reasons to live with a Carer, in most cases you have 2 years before your former home is counted as an asset for Centrelink purposes. The exception to this is if you rent out the home. Once rented, it is immediately counted as an asset. We recommend that prior to advising Centrelink that you have left the family home, you speak to us. The timing of this advice is critical and should be considered in relation to the likelihood of the need for future aged care placement as well as other factors. Your Carer also may be able to get a payment from Centrelink to assist them.

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

The Royal Commission and LFS

We have been asked many times how the RC will impact our firm. The simplest answer is that it wont have a major impact on us. LFS opened on 1/7/1985. In the last 34 years we have not had a registered complaint against us. We have not been sued and we have not had to make a claim on our Professional Indemnity insurance. This is because in everything we do, in all advice we give, we have always put the best interests of the client first. We act ethically in all transactions and advice and we treat all clients fairly.

The biggest impact on our business will be for older clients who are currently paying us via commission on older pension or annuity products. The RC and the current Government have moved to ban these type of payments. The impact will be that we will have to enter a service agreement with those clients to continue to provide them with financial advice and Centrelink advice for a fee, where as we had previously received a commission for doing so.

Other recommendations from the RC in relation to Financial Planning offices are already part of our ongoing process and best practice at LFS. All up, in our opinion, the RC missed the mark on bank-owned financial advice and tied product sales. The best solution, see a Financial Planner who has no ownership links to the banks. (We are not allowed to say "independently owned").

MOVEMENTS AT THE STATION

Over the last 6 months there have been a couple of changes in staff. As you are probably aware by now, Kathleen retired on February 8th, after almost 16 years with LFS. Many clients have sent cards, emails and well wishes which have been forwarded onto Kathleen. We take this opportunity to thank and acknowledge Kathleen for her service, friendship and loyalty.

Tegan Renault joined us in October at Reception. You will see Tegan all day Monday & Thursday, as well as Tuesday and Wednesday afternoons. We welcome her to the team and know you will be greeted by her smile.

Chris Harrower (Harry), Shelley Simnett and Sharron Cawsey remain with the team and along with Chris & Simone Vanden-Driesen, are ready to help with any queries you may have.

On April 10th our new Website went live. Our website address is; www.leishmans.com.au There are many useful forms and links on there for you. We are constantly battling to keep our email, phone and postal address records current, please make sure we have your current email address, phone numbers and postal address by advising us at info@leishmans.com.au Thank you.