Winter/Spring 2015

Newsletter

PAYSAFE
ADVISORY SERVICES

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Economic Comment

From its high point in May 2015, the Australian share market fell 9.24% to June 30. From there the Australian share market has fallen another 12% since the end of July, including 7% in just three days starting on Monday 24 August 2015. The week beginning Monday 24 August saw an extraordinary level of both volatility and instability in Australian and International share markets. Many commentators have suggested that US markets were overvalued and a correction was due. Although China is often cited as the cause, there were a mix of factors at play, including a weakening of commodity prices, fears of the potential start of a US monetary policy normalization process and worries over global growth and inflation expectations. The ongoing Greek situation, the potential invasion of Eastern Ukraine and the deep destabilization in the Middle East with its refugee crisis also adds to the instability. In Germany the VW scandal may have highly negative consequences.

China is the world's second largest economy and the Chinese share market was experiencing unprecedented 'highs' prior to the correction. The Shanghai Composite Index rose by 150% between June 2014 and June 2015. Over the previous 5 years, the Chinese Government had relaxed investment rules and ordinary people were able to borrow money to invest in the share market. The Government tried to reign in the growth in the market but could not stop the market falling. The Chinese market lost 22% of its value in 5 days and a total of 43% since June. Dr Shane Oliver from AMP Capital says of the current levels of the Chinese share market, that the Chinese Government "has a very low tolerance for social unrest that would flow from a hard landing as it knows that could pose a threat to the Government" (Oliver's Insights 27 August 2015, Edition 30). The Chinese Government will move to ease monetary policy by interest rate cuts, reduction in bank 'Reserve Requirement Ratio' (allowing the banks to lend more money) and further currency depreciations. In simple terms China and the world is in unknown territory.

As the Chinese market fell, much of the world's stock exchanges followed. The Australian stock market ended August 2015, with the ASX 200 down 8.6% for the month. For the first time since 2013, the ASX All Ords hit a low of 4,958. All sectors have fallen in the Australian market. The All Ordinaries Index hit a high of 5,954 in April 2015, fell in August to 5,014. It currently sits around 5,190. The key reductions in prices have been in the Banks and the big miners who make up nearly 50% of the value of the ASX All Ordinaries. Cash rates and bond fund returns continue to remain low.

Most commentators predict the volatility and instability in local and global markets will continue for some time. The main drivers being continued worries about the state of the Chinese share market, Chinese Government market intervention, the imminent tightening of US monetary policy and the ongoing Greek/European crises.

Scott Morrison's Media Release of 7 May 2015 entitled "Fairer access to a more sustainable pension" stated:

Approximately 170,000 pensioners with 'modest' assets will receive an increase in the age pension of approx $30 per fortnight.

Approximately 50,000 part pensioners will qualify for a full pension.

and

Approximately 91,000 pensioners will no longer qualify for the pension, and, 235 pensioners will have their part pension reduced.

but

If you lose your AGE PENSION entitlement due to the stricter assets test, you will automatically be issued with a Commonwealth Seniors Health Card, which will not be subject to the usual income test requirements.

SUMMARY OF LEGISLATIVE CHANGES

New Rules Commencement Date	***The New Rules are...***	***New Rules will effect***
1 January 2015	New allocated pensions (also known as account based pensions) will be deemed for the Centrelink Age Pension means test and the Commonwealth Seniors Health Card (CSHC) income test	CSHC Income Test Age Pension Income Test
1 January 2016	**Centrelink will automatically cap the deductible amount of all defined benefit income streams at 10%.**	**Age Pensioners with a Defined Benefit Pension such as ESSSuper Pension**
1 January 2017	The asset test threshold will be increased. This means a pensioner can have a greater amount of assets before the pension is reduced. However there is also an increase in the 'taper rate'.	Age pension Assets Test

1 January 2015

New allocated pensions (also known as account based pensions) with a **commencement date post 1 January 2015** will be 'deemed' for the Centrelink Age Pension income test and the Commonwealth Seniors Health Card (CSHC) income test.

Previously a 'deductible' amount reduced the amount of income counted in the income test. For any new allocated pensions, the deductible amount will no longer be applied and an allocated pension will be deemed in the same way as your bank accounts and any other financial assets.

1 January 2016

Centrelink will automatically cap the deductible amount of all defined benefit income streams at 10%. Previously a 'deductible' amount reduced the amount of income counted in the income test. From 1 January 2016 the deductible amount will be assumed to be 10% for all income stream recipients. (See Defined Income Stream case studies).

1 January 2017

The threshold to receive the full pension will be increased from $202,000 to $250,000 (single, homeowner) and from $286,500 to $375,000 (couple, homeowner). However the pension is reduced faster with an increase in the taper rate from $1.50 to $3.00. **This means for every $1,000 above the lower threshold the pension will be reduced $3.00.**

There will be a reduction in the maximum value of assets you can hold to qualify for a part pension. The asset test thresholds for a full pension will reduce from $775,500 to $547,000 (single, homeowner) and from $1,151,500 to $823,000 (couple, homeowner).

If you lose the Age pension due to the stricter assets test, you will be issued with a CSHC, which will not be subject to the usual income test limits.

Case Study 1

Charlie and his partner Susie are retired teachers and are both in receipt of a defined benefit income stream from ESSSuper and a part Centrelink Age Pension. Under the new rules their Centrelink Age Pensions will be reduced.

Case Study 2

Mary is single and a retired teacher. She is in receipt of an ESSSuper defined benefit income stream and a part Centrelink Age Pension. Under the new rules there will be no change to her Centrelink Age Pension

Aged Care Financial Planning with Paysafe Advisory Services

"Financial solutions, planning & advice for the aged care journey"

Contact Lucy Harrison at Paysafe Advisory Services

Defined Benefit Income Stream Case Studies

Case Study 1

Charlie and his partner Susie are both retired teachers and both are in receipt of Defined Benefit Income Streams as part of a 54/11 resignation/retirement strategy. They also both receive a part Centrelink Age pension. Charlie's income stream payment is $1,128 per fortnight and 46% (or $520) of this payment is his **deductible amount** and is not counted in the Centrelink income test. Susie's income stream payment is $850 per fortnight and 13% (or $113) of this payment is her **deductible amount** and is not counted in the Centrelink income test.

From 1 January 2016, Centrelink will use a 'deductible' amount, capped at 10% for all recipients of Defined Benefit Income streams. For Charlie, Centrelink used to count $608 of the Defined Benefit Income Stream as income and they will now count $1,015 as income. For Susie, Centrelink used to count $737 of the Defined Benefit Income Stream as income and now they will count $765 as income.

Both Charlie and Susie will have their Centrelink Age Pension reduced.

Case Study 2

Mary is in receipt of a Defined Benefit Income Stream of $850 per fortnight. Mary also receives a part Centrelink Age Pension. Mary's Defined Benefit Income Stream has a **deductible amount** of 8% or $68. The deductible amount is less than the 10% cap, so there will be no change to Mary's Centrelink Age Pension.

Aged Care Financial Advice – Update
Removal of the rental income exemption

One strategy to fund aged care costs is to keep the family home and rent it out. The rental income is then put towards the cost of care. Using this strategy, the Refundable Accommodation Deposit (RAD) is not paid in full, the outstanding amount paid as Daily Accommodation Payment (DAP). This strategy results in the rental income not being counted under the income test and the house remains an exempt asset indefinitely.

In the 2015 Budget, the Government proposed to remove this exemption from the Aged Care Means Tested Care Fee. This means the rental income will be included in assessable income and the home will continue to be counted as an asset with a cap of $157,051.20 (as at 1 Sept 2015). The proposed changes will affect new aged care residents from 1 January 2016 who plan to keep the family home, rent it out and pay the accommodation, at least partly as a daily payment (DAP).

There has been no draft legislation presented in Parliament, so the details are not clear. If a resident is planning to keep the family home and rent it out, they may benefit by implementing this strategy prior to 1 January 2016.

Paysafe charges a low minimum fee for Aged Care Advice and caps costs at a low level. This follows our practice theme of quality advice at affordable costs.

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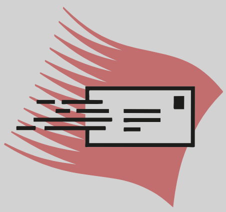
Aged Care Advice

738 Riversdale Road CAMBERWELL 3124
PO Box 1900 MIDDLE CAMBERWELL 3124
p.(03) 9836-8200   f. (03) 9836-8500
admin@paysafe.com.au   www.paysafe.com.au

Noel Lethborg Authorised Representative No. 230733
Rod Lethborg Authorised Representative No. 230732
Lucy Harrison Authorised Representative No. 331204
Lethborg Bros Pty Ltd trading as Paysafe Advisory Services Pty Ltd ABN 59 056 516 155 is a
Corporate Authorised Representative of Advocate Advisory Pty Ltd ABN 14 150 153 503
Suite 4, Level 1, 329 Mitcham Road Mitcham Victoria 3132 AFSL 405576



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Mail to PO Box 1900 MIDDLE CAMBERWELL 3124
or email admin@paysafe.com.au