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QUARTERLY INSIGHT
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Superannuation Update

On the 15th of September 2016 - Scott Morrison (Federal Treasurer) and Kelly O'Dwyer (Minister for Revenue and Financial Services) held a joint press conference to announce major changes to some of the superannuation measures that had been announced in the 2016/17 Federal Budget.

The changes announced will scrap the controversial $500,000 lifetime cap on non-concessional contributions, alongside a number of other changes. The following table sets out the announcements. These changes passing will be subject to the successful pathway required to amend legislation which is expected to be tabled in parliament by the end of this calendar year.

PREVIOUS BUDGET ANNOUNCEMENT	PROPOSED AMENDMENT
$500,000 lifetime cap on non-concessional contributions to apply from 3 May 2016, and inclusive of non-concessional contributions made since 1 July 2007.	The lifetime cap is to be scrapped. It will be replaced with a $100,000 annual cap on non-concessional contributions, with the ability for those under 65 to bring forward up to three years of contributions. Non-concessional contributions will only be available to people with less than $1.6M (indexed) in superannuation. **This measure is to take effect from 1 July 2017.**
Removal of the work test – thereby enabling people aged between 65 and 74 to make superannuation contributions without having to be gainfully employed for a minimum period of 40 hours within a 30-day consecutive period. To apply from 1 July 2017.	**This measure will not be continuing.** Consequently individuals wishing to make superannuation contributions between the ages of 65 and 74 will need to meet the work test, which currently applies.
A concessional contribution catch-up would allow people with less than $500,000 in superannuation to carry forward any unused portion of their concessional contribution cap for a period of up to five years. To apply from 1 July 2017.	This measure will continue, however, its implementation will be deferred by one year. **To take effect from 1 July 2018.**

Changes to the Pension Assets

300,000 Australians will have Age Pension entitlements cut

Taking immediate effect from 1 January 2017, more than 300,000 Age Pensioners will have their Age Pension entitlements cut, with just under 100,000 of those affected losing all Age Pension entitlements. Due to some miscalculations by the federal government, it looks like many thousands more may be affected by the January 2017 changes.

With revisions to the Age Pension assets test just around the corner, it's important to understand how the changes could impact you. We take a look at what these changes mean and considerations to discuss with your Financial Planner leading up to the asset test changes being implemented from 1 January 2017.

Many retirees will need to review their current retirement income strategies in light of the rebalanced pension assets test. Homeowner couples may see a reduction in their pensions by up to $14,122 ($9,798 for single homeowners) that will need to be replaced if a particular retirement lifestyle is to be maintained.

What do these changes mean?

The rebalanced pension assets test effective from 1 January 2017 will:

1) Have higher assets test thresholds

The increase in the assets test thresholds allows clients to hold more assets before their pension starts to reduce. For some clients with lower asset levels, this may lead to higher pension entitlements. For others, the income test will continue to determine their entitlements.

TABLE 1. ASSETS TEST THRESHOLDS

CLIENT SITUATION	ASSETS TEST THRESHOLD (AS AT 20 SEPT 2016)	ASSETS TEST THRESHOLD (AS AT 1 JAN 2017)
Single, homeowner	$209,000	$250,000
Single, non-homeowner	$360,000	$450,000
Couple, homeowner	$296,500	$375,000
Couple, non-homeowner	$448,000	$575,000

2) Double the taper rate from the current $1.50 to $3 per fortnight, per $1,000 of assets.

This change will reduce Age Pension entitlements at a faster rate once assessable assets exceed the new assets test thresholds. The largest reduction in pension entitlements will occur at the new assets test cut-off thresholds (Table 2). Pensioners with assessable assets above the new cut-off will see their pensions reduce to zero.

TABLE 2. ASSETS TEST CUT-OFF THRESHOLDS

CLIENT SITUATION	CURRENT CUT-OFF THRESHOLD (AS AT 20 SEPT 2016)	CUT-OFF THRESHOLD (AS AT 1 JAN 2017)
Single, homeowner	$793,750	$542,500
Single, non-homeowner	$945,250	$742,500
Couple, homeowner	$1,178,500	$816,000
Couple, non-homeowner	$1,330,000	$1,016,000

Continued next page

Test from 1 January 2017

Cashflow and other important effects

The immediate impact with a reduced (or lost) pension is a reduction in cashflow. However, there are also other important effects.

Loss of Grandfathered status on existing Account Based Pensions

The first is the loss of grandfathered status on existing account based pensions (ABPs). ABPs that commenced prior to 1 January 2015 can only remain grandfathered if a pensioner continues to be in receipt of an income support payment such as the Age Pension.

Pensioners who lose their Age Pension entitlement on 1 January 2017 because of the assets test changes will have their ABPs deemed. In many cases, this will lead to higher levels of assessable income going forward.

Loss of the Pensioner Concession Card

Another is the loss of the Pensioner Concession Card (PCC) and the concessions it provides to pensioners. There are provisions in place to ensure those who lose their PCC because of the new assets test changes, are automatically issued with a low income health care card (LIHCC) and a Commonwealth Seniors Health Card (CSHC)(if they are over age 65) without being subject to the relevant income test.

Pension Bonus Scheme

If you're registered for the Pension Bonus Scheme, your bonus depends on the rate of Age Pension you'll receive when you claim it. This rate may be different before and after 1 January 2017. You may wish to consider this if you have flexibility as to when to claim.

Government Subsidised Aged Care Fees

This change may affect your government subsidised aged care fees. This is because your income, including your pension, affects your fees. If your pension is reduced or cancelled, Department of Human Services will send you a letter. You'll receive a separate letter if your aged care fees change.

Managing your cashflow reduction

Of those who anticipate a reduction, or loss, in their entitlements, some may choose to simply review and tighten their budget to offset the reduction (or loss) in their pensions. Others may find this approach challenging, particularly those facing a larger reduction in entitlements.

Depending on your circumstances, if you are looking to maintain your cashflow, there are a number of options and strategies that may help reduce the impact of the assets test changes. These could include:

- Increasing drawdowns from income streams and/or savings;
- Asset reduction strategies; for example, gifting within annual limits, moving savings into a spouses super or bringing holidays or home renovations forward.
- Investing a portion of capital in a lifetime annuity which can help meet ongoing cash flow needs and improve Age Pension entitlements over time.

Depending on your circumstances, it may also be appropriate to look at:

- How you might replace any lost income if your entitlements are reduced.
- How strategies outside of asset reduction may be able to help – for example working for longer or reviewing your budget in retirement.

Action

Cashflow is an important consideration for retirees, especially if you are in the early years of retirement. The rebalanced assets test on 1 January 2017 will see some better off, while others will see a reduction, or loss, in their entitlements.

If you believe you may be affected by these changes, or you have received a letter from the Department of Human Services advising you of the changes to your pension, it is important to make an appointment to come in and discuss what these changes may mean to you and we can work together to make any necessary adjustments to your financial plan.

Sources: www.moneymangement.com.au, www.humanservices.gov.au, www.superguide.com.au

Family Trusts and SMSFs

Family trusts have come back onto the radar of SMSFs following the recent budget update announcements that limit the amount of money that can be contributed to a super fund and still receive preferential tax treatment.

Should the Senate approve the changes, from 1 July 2017, SMSF will be capped at $1.6 million in the super fund with its favourable tax treatment, including the tax-free status of investments in once in the pension phase. These changes have put family trusts into the spotlight.

Whilst superannuation may be seen as the best tax environment in which to hold your assets, particularly when you are near or at preservation age, if you are heading towards or have even surpassed the proposed $1.6 million pension limit, decisions need to be made. Assets should be allocated appropriately to another structure that works, and sometimes that structure will be a family trust.

Whilst family trusts may not be for everyone, the benefits and flexibility of a family trust can be a tax effective structure in which to hold investments alongside your SMSF. Given the tax benefits of the super system, it's not often that it makes good financial sense to use a family trust structure over an SMSF, unless you are a long way from preservation age.

The appropriateness of a family trust needs to be assessed on a case-by-case basis, carefully taking into account the costs and benefits of establishment and maintenance. Family trusts can be better suited where your portfolio is of a reasonable size and you are at a higher marginal tax rate, and can be particularly effective where there is a family group including parents, children, and other closely-related parties.

Source - AMP

Younger Australians taking up SMSFs

According to the latest industry research from Rainmaker Advantage, as reported recently in Financial Standard, 75% of new SMSF members are aged below 55. The data presents a strategic shift in the sector. Whilst two thirds of existing SMSF members are aged 55 and over, most SMSFs being established now are by younger people in their 40s, 30s and even in their 20s.

The research also indicates that although the average balance of SMSFs has shown almost no material growth over the past five years at $545,000, this average masks the weight of the sector shifting upwards. Whilst in 2004 only 12% of SMSFs held more than $1 million in assets, by 2014 this proportion had almost tripled to 32%. Meanwhile, SMSF balances with less than $50,000 are rapidly disappearing, from 15% in 2004 to 5%.

In terms of asset allocation, large multi-million dollar SMSFs on average hold about 20% of their investments in cash compared to micro-SMSFs which hold around 7%. Residential property makes up only 4% of SMSF assets and collectibles a tiny 0.07%. These statistics dispel an erroneous view that SMSFs are full of jewellery and artworks, or that they are driving first home buyers out of the housing market. In fact SMSFs are three-times more likely to favour commercial over residential property.

While SMSFs have become popular in recent years, increasing their number by 26,000 annually in net terms, in percentage terms this means their growth rate has fallen from 15% in 1998 to now be only 3%. As at March 2016 about 575,000 SMSFs operated in Australia with assets of more than $600 billion, accounting for about one-third of the entire superannuation system.

Source - Financial Standard

Super Contribution Opportunity

Recent changes to superannuation as outlined in the Superannuation Update (front page) create a window of opportunity to maximise the benefits within the superannuation rules between now and 30 June 2017. Superannuation is one of the most misunderstood savings vehicles in Australia. This window can help you get more money into your super and maximise the opportunities offered by the current rules, before they are changed.

The first change is that the current $180,000 per annum after-tax contribution limit reduces to $100,000 from 1 July 2017.

- If you are under 65, with the current 3-year 'bring forward' rule capped at $180,000 per annum, you can actually contribute up to $540,000. After 1 July 2017, that opportunity will be lost. $540,000 is a very large contribution, but many people do get capital from the sale of property, the sale of a business, or an inheritance, and may not realise this opportunity is about to disappear. Others may consider selling a property, or share portfolio they have owned as a retirement nest egg sitting outside of super, and redirect this contribution inside super.
- If you are aged between 65 and 74 and meet the work test (work 40 hours within a 30-day period each income year), you can make annual after-tax contributions, but cannot 'bring forward' contributions.
- If you are under 65 and have contributed more than $180,000, but less than the full $540,000, you also currently have the opportunity to contribute the balance up to $540,000 under the 'bring forward' rule.

Say your first after-tax contribution is $250,000, which you deposited this financial year, under the existing rules you can still contribute the balance of $290,000 up to $540,000 before 30 June 2017. However, if you leave it until after 30 June 2017 to top up your contributions, the $540,000 limit will be reduced to $380,000, due to the cap reduction from $180,000 to $100,000 ($180,000 for the 2016/17 year you have already contributed in, plus 2 x $100,000 for the next two years). Taking into account the $250,000 you have already put in, you will then only have the ability to put in an additional $130,000, instead of $290,000, over the next two years.

Younger superannuation accounts that have many years left until retirement, can still look at getting as much as they can into super – regardless of the $1.6 million tax-free pension threshold.

For example, if you are sitting at $1.4 million in super and you have capacity, it still makes sense to put in $540,000 this year, as your super balance of $2 million will be taxed concessionally until you retire. Because it is a non-concessional contribution, you can withdraw it later, but if it wasn't in there to begin with, it will be more difficult to get it in there later.

From 1 July 2017, if you have more than $1.6 million in super you will no longer be able to make after-tax contributions. A further complication will be if you are close to the limit and have an annuity.

After 1 July 2017, if your super balance is close to $1.6 million, you will fall under 'transitional arrangements'. You will only be able to bring forward the annual cap amount for the number of years that would take your balance to $1.6 million. Whether you are able to make an after-tax contribution will be based on your fund balance as at 30 June the previous year.

The latest changes will be good news for most people. Except those are aged 65-74, who do not meet the work test but wanted to contribute more. An example could be a retiree who sold an investment property and wanted to put the proceeds into super. Unless they meet the work test, they will not be able to do so, whereas they would have, under the original budget proposal which would have abolished the work test.

The delaying until 1 July 2018 of another budget measure – the ability to make catch-up pre-tax contributions if you do not put in the full $25,000 each year – is a further blow. Most retirees do not generate enough assessable income to be able to claim a tax deduction for a super contribution, giving them the ability to accrue their unused cap. If the work test had been scrapped, they could have offset $125,000 of the capital gain by using five years' worth of unused pre-tax $25,000 contributions.

Contact our office to explore your superannuation options.

Retirement Village

Retirement village living can often enable you to get into a newer home that is more suited to your lifestyle, at an affordable price.

A unique advantage of retirement village living is, in many cases, the ability to defer a large part of the cost until after you leave a village. However, a retirement village is usually not suitable if you require a high level of care.

To be sure that retirement living is for you, it's very important to be clear about your current financial circumstances. There are many different contract models and you should ensure you fully understand the costs and structure of any agreement entered into.

The main types of contract arrangements are:

STRATA TITLE

Where you pay an agreed amount to a former resident or the operator, and then own the unit. You usually also need to enter into a service agreement with the operator.

LOAN AND LICENCE

May be offered by not-for-profit organisations such as churches. You usually pay a contribution in the form of an interest-free loan.

LEASEHOLD

Where the lease is usually registered on the title deed, which protects you if the village is sold. You pay a lump sum for the leasehold.

All payments made before, during and after living in a retirement village must be specified in the entry agreement contract. There are generally three different types of costs associated with living in a retirement village under these contract arrangements:

THE ENTRY FEE OR PURCHASE PRICE

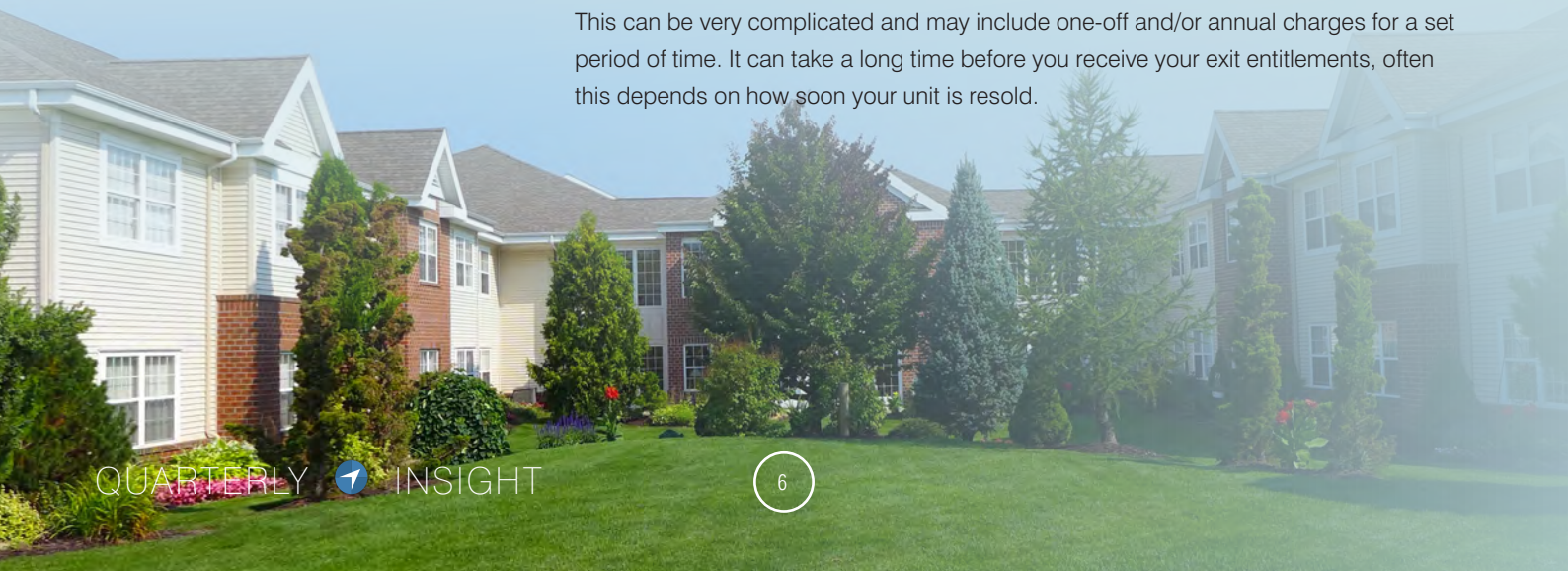
There are large variations in entry fees for retirement villages, depending on factors including location, facilities, the age and condition of the unit, and other fees to be paid.

SERVICE, MAINTENANCE OR ONGOING FEES

Whilst the services these fees cover may sometimes change, the main problem is that ongoing fees can increase beyond your expectations (and budget). Even if you have left the village, you may be charged some fees until your property is sold or occupied. Generally there is a maximum amount of time that ex-residents are liable for fees after leaving, ranging from 42 days in NSW and the ACT, up to 9 months in Queensland and years in South Australia.

THE EXIT FEE, ALSO KNOWN AS A DEPARTURE FEE OR DEFERRED MANAGEMENT FEE

This can be very complicated and may include one-off and/or annual charges for a set period of time. It can take a long time before you receive your exit entitlements, often this depends on how soon your unit is resold.



Living Considerations

Alternatively, some retirement villages have a rental agreement, and usually only charge rent.

CENTRELINK ASSESSMENT

Note that Centrelink considers that your entry contribution includes all amounts you must pay when you move into a retirement village. It does not include ongoing fees and charges for services and facilities.

The amount of entry contribution you pay depends on whether Centrelink considers you to be a 'homeowner' and if you will still be eligible to receive rent assistance. This figure is called the 'Extra Allowable Amount' and is the difference between the non-homeowner and homeowner assets test thresholds at the time the entry contribution is paid.

If you are not considered a homeowner, your entry contribution is included as an asset. It is not classed as a financial investment and income will not be deemed. You can visit the Centrelink website for more information.

FURTHER CONSIDERATIONS

If you're thinking of moving into a retirement village, as well as checking the contract, consider:

- Discussing your decision with family and friends
- Visiting a number of retirement villages to compare services, facilities and financial arrangements to help ascertain:
  - Will the services and facilities at the village still be suitable as your needs change? E.g. are there any stairs, are the paths easy to access?
  - Is there adequate parking for visitors?
  - Can you access local facilities such as GPs, shops, hospitals, libraries, churches, clubs and public transport?
  - Can you alter the inside of premises? E.g. in the event you need a wheelchair.
  - Can you have someone stay over for a visit or move in?
  - Can you have a pet?
  - Are the grounds pleasant and well-tended?
  - What security arrangements are in place? E.g. is there sufficient external lighting?

Nursing homes are sometimes located within retirement villages – but you need to remember that as nursing home places are regulated by the Federal Government, their allocation is determined on a needs basis, rather than whether you are an existing village resident.

Call us if you have any questions or concerns about a possible transition to retirement village living.

Sources: www.agedcareguide.com.au, www.retirementliving.org.au, Centrelink

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