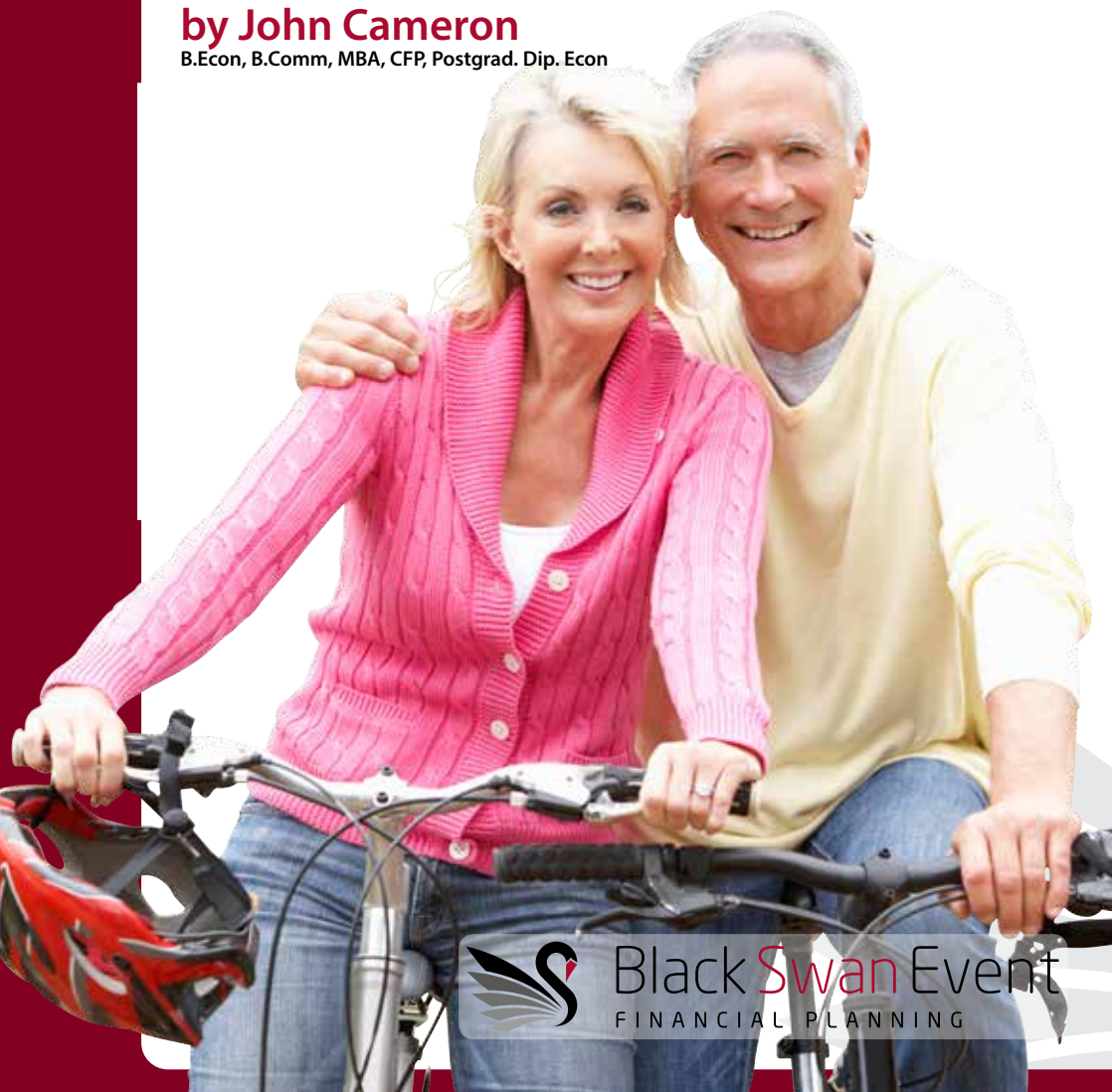


Making the most out of the changes to pension thresholds in the 2015 Budget

Practical guidance, based on solid research

by John Cameron

B.Econ, B.Comm, MBA, CFP, Postgrad. Dip. Econ



BlackSwan Event
FINANCIAL PLANNING

John Cameron

B.Econ, B.Comm, MBA, CFP, Postgrad. Dip. Econ

John Cameron is the Principal of Black Swan Event Financial Planning and one Australia's most experienced financial planners.

He has been directly involved as a financial planner since 1982 and has previous experience in stockbroking, money market operations and financial journalism.

His first degree was in Economics (B.Econ) and he remains a keen student of economics and business. He also holds a Bachelor of Commerce degree (B.Comm) and a Master of Business Administration (MBA), as well as being a Certified Financial Planner (CFP).

He completed a post graduate diploma in Economics from Murdoch University in 2012.

John believes in helping clients achieve their goals, working with them through good times and bad to do so. Some clients have been with him for more than 20 years.

John sees his role as helping clients 'Preserve, Protect and Grow' their wealth. An important first step is to identify and refine a good strategy that takes account of client circumstances and goals and then plots a path that manages risk, taxation, Centrelink and investments.

John helps people meet their financial goals by using a range of financial products, most of which are also available to other financial planners. However, his long industry experience and extensive industry knowledge enables him to apply additional insights to product selection, implementation and strategy.

"We continue to look over our clients' shoulders as life stages, markets, legislation, needs and circumstances change and provide appropriate advice and solutions – for as long as they want us involved," he says.



Contact

11th Floor, BGC Building, 28 The Esplanade Perth WA 6000

P: (08) 9322 7818

F: (08) 9481 5570

perth@blackswanevent.com.au

www.blackswanevent.com.au

© 2015 John Cameron

PENSION CHANGES

The fact that the Government has changed the assets test for pension eligibility has been widely publicised, and the changes appear to have broad support.

But, the impact on individuals and families will vary from case to case. As with everything involving Centrelink (and taxation as well), there is a fair degree of complexity, and it is necessary to work through the rules to see what the end result is and to show what level of total income you can expect, based on conservative data.

The Age Pension is just one source of retirement income and in order to get the full picture, it is important to look at how the pension interacts with other income sources, which is shown in the following tables.

NEW RULES

The new rules will apply from 1st January 2017. Importantly, people who lose their pension as a result of these changes, will automatically be issued a Commonwealth Seniors Health Card.

The changes will be implemented by increasing the “assets test free area” (i.e. the amount of assets you can have before your pension will be affected) and by changing the “taper rate”. The Assets Test free area will be increased as follows.

	Home Owning Couple	Home Owning Single	Non Home Owning Couple	Non Home Owning Single
Current Assets Test Free	\$286,500	\$202,000	\$433,000	\$348,500
New Assets Test Free	\$375,000	\$250,000	\$575,000	\$450,000

The amount of assets you can have, before losing the pension entirely, will be as follows:

	Home Owning Couple	Home Owning Single	Non Home Owning Couple	Non Home Owning Single
Current Assets Upper Limit	\$1,151,500	\$775,000	\$1,298,000	\$922,000
New Assets Upper Limit	\$823,000	\$547,000	\$1,023,000	\$747,000

The “taper rate” will change from \$1.50 per \$1,000, to \$3.00 per \$1,000. The “taper rate” is the rate by which pension is reduced for each \$1,000 of assets you have, above the “assets test free area.”

WHAT ASSETS

The assets test includes all your assets, other than the family home. It includes all cash, term deposits, superannuation, account based pensions, annuities, shares or other investments, as well as household and personal effects such as household contents, cars, boats, and so on. However, it is important to note that these are counted at “market value”. While it is clear what this is for most investments, things like household contents usually have a very low market value. Just try selling an old fridge, and see what you get for it. Not much.

There is a bit of a trap here as people sometimes declare to Centrelink the insurance value of their contents, which typically is what it would cost to replace everything if it was lost, (e.g. in a fire) and is much higher than the market value. This is a “shot in the foot” mistake that can unnecessarily reduce pension.

OVERALL

The overall effect of the changes will be to increase the amount of pension received by people at the lower end, and reduce the amount people at the upper end receive.

INCOME

The following table shows the income achieved by pensioners with various levels of income, and receiving 5% on their investments. In compiling the table, I have allowed \$50,000 for contents and personal effects. Thus the amount invested is total assets, less \$50,000.

Homeowner Couples

Assessable Assets	Age Pension Received At Current \$1.50 Taper Rate*	Age Pension Under Rebalanced Asset Test Measure*	Reduction (Increase) In Pension Income Received	Investment Income at 5%	Total Income Under New Scale
\$100,000	\$34,923	\$34,923	\$0	\$2,500	\$37,423
\$200,000	\$34,923	\$34,923	\$0	\$7,500	\$42,423
\$300,000	\$34,865	\$34,923	-\$59	\$12,500	\$47,423
\$400,000	\$30,965	\$32,973	-\$2,009	\$17,500	\$50,473
\$451,500	\$28,956	\$28,956	\$0	\$20,075	\$49,031
\$500,000	\$27,065	\$25,173	\$1,892	\$22,500	\$47,673
\$600,000	\$23,165	\$17,373	\$5,792	\$27,500	\$44,873
\$700,000	\$19,265	\$9,573	\$9,692	\$32,500	\$42,073
\$800,000	\$15,365	\$1,773	\$13,592	\$37,500	\$39,273
\$823,000	\$14,467	\$0	\$14,467	\$38,650	\$38,650
\$900,000	\$11,465	\$0	\$11,465	\$42,500	\$42,500
\$1,000,000	\$7,565	\$0	\$7,565	\$47,500	\$47,500
\$1,100,000	\$3,665	\$0	\$3,665	\$52,500	\$52,500
\$1,200,000	\$0	\$0	\$0	\$57,500	\$57,500

* based on projected pension rates at 1st January 2017

Homeowner Single

Assessable Assets	Age Pension Received At Current \$1.50 Taper Rate*	Age Pension Under Rebalanced Asset Test Measure*	Reduction (Increase) In Pension Income Received	Investment Income At 5%	Total Income Under New Scale
\$100,000	\$23,166	\$23,166	\$0	\$2,500	\$25,666
\$200,000	\$23,166	\$23,166	\$0	\$7,500	\$30,666
\$250,000	\$21,626	\$23,166	-\$1,540	\$10,000	\$33,166
\$289,500	\$20,085	\$20,085	\$0	\$11,975	\$32,060
\$300,000	\$19,676	\$19,266	\$410	\$12,500	\$31,766
\$400,000	\$15,776	\$11,466	\$4,310	\$17,500	\$28,966
\$500,000	\$11,876	\$3,666	\$8,210	\$22,500	\$26,166
\$547,000	\$10,042	\$0	\$10,042	\$24,850	\$24,850
\$600,000	\$7,976	\$0	\$7,976	\$27,500	\$27,500
\$700,000	\$4,076	\$0	\$4,076	\$32,500	\$32,500
\$800,000	\$0	\$0	\$0	\$37,500	\$37,500

* based on projected pension rates at 1st January 2017

Non Homeowner Couple

Assessable Assets	Age Pension Received At Current \$1.50 Taper Rate*	Age Pension Under Rebalanced Asset Test Measure*	Reduction (Increase) In Pension Income Received	Investment Income At 5%	Total Income Under New Scale
\$100,000	\$34,923	\$34,923	\$0	\$2,500	\$37,423
\$200,000	\$34,923	\$34,923	\$0	\$7,500	\$42,423
\$300,000	\$34,923	\$34,923	\$0	\$12,500	\$47,423
\$400,000	\$34,923	\$34,923	\$0	\$17,500	\$52,423
\$500,000	\$33,012	\$34,923	-\$1,911	\$22,500	\$57,423
\$600,000	\$29,112	\$32,973	-\$3,861	\$27,500	\$60,473
\$699,000	\$25,251	\$25,251	\$0	\$32,450	\$57,701
\$700,000	\$25,212	\$25,173	\$39	\$32,500	\$57,673
\$800,000	\$21,312	\$17,373	\$3,939	\$37,500	\$54,873
\$900,000	\$17,412	\$9,573	\$7,839	\$42,500	\$52,073
\$1,000,000	\$13,512	\$1,773	\$11,739	\$47,500	\$49,273
\$1,023,000	\$12,615	\$0	\$12,615	\$48,650	\$48,650
\$1,100,000	\$9,612	\$0	\$9,612	\$52,500	\$52,500
\$1,200,000	\$5,712	\$0	\$5,712	\$57,500	\$57,500
\$1,300,000	\$0	\$0	\$0	\$62,500	\$62,500

* based on projected pension rates at 1st January 2017

Non Homeowner Single

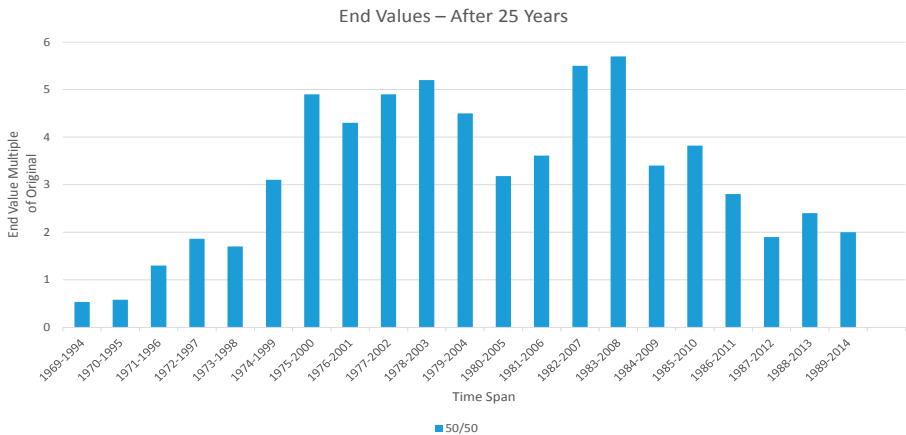
Assessable Assets	Age Pension Received At Current \$1.50 Taper Rate*	Age Pension Under Rebalanced Asset Test Measure*	Reduction (Increase) In Pension Income Received	Investment Income At 5%	Total Income Under New Scale
\$100,000	\$23,166	\$23,166	\$0	\$2,500	\$25,666
\$200,000	\$23,166	\$23,166	\$0	\$7,500	\$30,666
\$300,000	\$23,166	\$23,166	\$0	\$12,500	\$35,666
\$400,000	\$21,723	\$23,166	-\$1,443	\$17,500	\$40,666
\$500,000	\$17,823	\$19,266	-\$1,443	\$22,500	\$41,766
\$537,000	\$16,380	\$16,380	\$0	\$24,350	\$40,730
\$600,000	\$13,923	\$11,466	\$2,457	\$27,500	\$38,966
\$700,000	\$10,023	\$3,666	\$6,357	\$32,500	\$36,166
\$747,000	\$8,190	\$0	\$8,190	\$34,850	\$34,850
\$800,000	\$6,123	\$0	\$6,123	\$37,500	\$37,500
\$900,000	\$2,223	\$0	\$2,223	\$42,500	\$42,500
\$1,000,000	\$0	\$0	\$0	\$47,500	\$47,500

* based on projected pension rates at 1st January 2017

The above tables raises the question of how realistic is the return of 5% p.a.

Independent research carried out in 2014 gives a clue. The research shows how well people's account balances would fare over 25 years, with various start dates, and assuming a draw of 5% pa, indexed for inflation at the rates actually experienced.

The results for a starting portfolio made up of 50% cash management with bank bill rates used to indicate interest rates, and 50% Australian shares, are shown in the following bar chart:



The chart shows a number of things:

1. A 50/50 mix will provide the desired income for all periods covered. Depending when you started, a much higher income than 5% could have been drawn.
2. There are some big differences between the ending account values in different periods, showing the impact that different economic conditions can have over an extended period. Of particular importance are the results in the first few years.
3. It is very important to index for inflation. Although it is not obvious in this table, we also looked at the situation if people did not index, and the results were very different.
4. There is no “single bullet” solution to the question of retirement income and It is important to review investments when there are big changes in financial conditions.
5. Over many periods it would have been possible to draw much more than 5% p.a.
6. Even in the worst examples (1969 to 1994 and 1970 to 1995) there was scope to draw more than 5% p.a., provided you were prepared to dip into your capital.

Importantly, remember that the above chart shows historical results, and future results may well differ from those shown.

Finally

Whether you have already retired or are planning for the day when you do retire, we would be happy to hear from you. We will assist in any way we can.

The author is the principal of Black Swan Event Financial Planning.



Disclaimer

Please note that while Black Swan Event has made every reasonable effort to ensure the reliability of the sources used in this document, neither Black Swan Event nor the licensee makes any warranty, express or implied, or assumes any legal liability or responsibility for the accuracy, completeness, or timeliness of any information disclosed, or represents that its use would not infringe on privately owned rights. The opinions of the authors expressed herein do not necessarily reflect those of Paragem Pty Ltd.

General Advice Warning

Please note that any recommendations do not take full account of all of your circumstances and you should decide whether or not they are appropriate for you before deciding to act. Any decision to act should only be made reading the relevant Product Disclosure Statement (PDS). You can obtain copies of the PDS from us.

Black Swan Event Financial Planning is an authorised representative of Paragem Pty Ltd who hold AFS Licence 297276, issued by ASIC.



Black Swan Event
FINANCIAL PLANNING

11th Floor, BGC Building, 28 The Esplanade Perth WA 6000

P: (08) 9322 7818 E: perth@blackswanevent.com.au W: www.blackswanevent.com.au