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TIPS FINANCIAL SERVICES

2014 TIPS October Newsletter

Welcome to the latest edition of the TIPS newsletter!

Where has the year gone? It is now Term 4 with 57 days until Xmas!

In this newsletter we have some timely topics which are important for all life stages. While you maybe thinking about the upcoming exam period or perhaps reports to complete, at TIPS we also want to ensure that your finances are in order to ensure you have the life you want now – and also in the future.

We all reflect on the importance of financial security, so now might be a good time to speak to your loved ones about the importance of being financially literate – no matter what stage of life they are at. Transferring your knowledge and ideas like you do in the classroom daily can certainly assist in improving the financial literacy of those you care most about. Irrespective of age, it's never to early to start building those good habits.

If after reading these 3 articles you have any queries or questions of how these topics may impact your family's lives, please don't hesitate to contact the TIPS team on 6465 5400 or visit our website for more information.

All the best for a successful end to the 2014 school year and then enjoying the summer holidays!

TIPS Financial Services

9 Roberts Street
West Osborne Park
WA 6017

PO Box 1493
Osborne Park
WA 6916

P 08 6465 5400
F 08 6465 5499
E info@tipsfs.com.au
W www.tipsfs.com.au

Plan ahead for super pension changes

Changes to the deeming rules could make it more difficult in future to qualify for the age pension and the Commonwealth Seniors Health Card.

That's because tax-free income from account-based super pensions will soon be included in the income test for Centrelink purposes and to the Commonwealth Seniors Health Card income test. This will put income from super pensions on a level footing with income earned on investments outside super.

The good news is that you have until January 1, 2015 to prepare. Even then, if you are already in receipt of a pension, the new rules will only affect retirees with super pensions started on or after that date.

How does deeming work?

To be eligible for a full or part age pension you need to pass both an assets test and an income test. Under the income test, your financial assets are 'deemed' to have earned a set amount of income, regardless of how much they actually earn.

The current deeming rates for a single retiree are 2 per cent for the first $48,000 of a pension account balance and 3.5 per cent for the remainder. For couples the threshold amount is $79,600.

The new rules will have the greatest impact on retirees with more modest super balances, where the income test is used to determine how much age pension they receive. That is, single home-owners with assets of less than $135,850 or couples with less than $238,200[ii].

From 20 September 2017, the deeming thresholds for means-tested payments are set to be lowered to $30,000 income for singles and $50,000 for couples[iii]. This will make it even harder to qualify for a full or part pension under the income test.

A card with benefits

If you do not receive any Age pension, you may still be entitled to the Commonwealth Seniors Health Card. It provides access to benefits including pharmaceutical discounts and certain travel concessions.

There is no asset test to qualify for the health card but there is an income test, currently $50,000 for singles and $80,000 for couples[iv]. Currently, tax-free income streams from super pensions are not included in the income test but that will change on January 1.

Who is affected?

The new rules ensure that anyone who already has a super pension in place and either receives the Age pension (or other specified Government income support payment) or the Commonwealth Seniors Health Card will not be affected. That is, they will continue to be assessed under the current rules.

If you turn 65 on or after that date you will be assessed under the new rules. Similarly, if you are already in receipt of a pension (or other specified Government income support payment), but commence your super pension on or after 1 January, you will be assessed under the new rules.

Avoiding breaches

While existing pension and card entitlements will continue as normal come January 1, they could still be jeopardised if you breach the new rules.

For example, if a super pension is stopped and re-started, the new pension will be assessed under the less generous deeming rate system. This could happen if you fail to pay the minimum pension amount for the year or if you put extra money into your pension, technically re-starting it in the process.

Your estate plan may also need reviewing. For example, you may need to take steps before January 1 to ensure your partner continues to receive a part pension or the health card after your death. This is what is called a 'reversionary' pension because it 'reverts' to your beneficiary upon your death.

In light of these changes, if you still have money in an accumulation fund you might consider moving it into a pension.

There's still time to plan, speak to your financial adviser to discuss your retirement income strategy.

i. Australian Government, Dept of Human Services, http://www.humanservices.gov.au/customer/enablers/deeming

ii. 'Guide to keeping your old benefits' by John Wasiliev, Australian Financial Review 21-22 June 2014, page 26.

iii. 'Planning for the pension changes' by Bruce Brammell, Eureka Report 19 May 2014

iv. As above

Let's talk about money

When it comes to analysing the state of Australian relationships, you can forget the bedroom. The really revealing behaviour takes place behind closed bank accounts.

It is no secret that money is often at the heart of divorce and family disputes. Money has certainly not bought love for Australia's richest person, Gina Rinehart who is locked in a bitter court battle with her children for control of a $5 billion family trust[i].

But you don't have to be a billionaire to get embroiled in conflicts about money.

Research by Relationships Australia found that 37 per cent of women and 30 per cent of men rate financial woes as the main cause of divorce[ii]. The gender difference may be explained by the fact that women tend to manage the household finances and are first to feel the pressure when budgets are stretched.

Perhaps this helps explain why some couples are secretive about their money. In a recent study of married and de facto couples, 3 per cent of respondents admitted to having an account they kept secret from their partner as a 'safety net' in case something happened[iii].

So how can couples, and families more broadly, bring money issues out of the shadows, reduce conflict and create financial trust in their relationships?

Discuss your money philosophy

In the early stages of a relationship couples may discuss attitudes towards children and their dreams for the future, but attitudes towards money are just as important if they are to live happily ever after.

For example, one partner may believe money is for enjoying while the other wants to budget and save for a home deposit. It is important to discuss philosophical differences to see if you are able to work together before it is too late.

Be open and honest

Trust is one of the most important ingredients in a successful relationships and money has a role to play in developing and maintaining trust.

Having separate bank accounts alongside a joint account for household bills can give couples a sense of control over their money and help avoid conflict. However, in order to maintain trust it is important to be open about all your personal finances and spending.

Agree on a budget

While budgeting may sound very last century, it is a powerful money management tool.

By sitting down with your partner to draw up a budget and track your progress you will not only identify savings but also start a conversation about your spending habits and money goals.

Be an equal partner

Many couples find it easiest to divide household roles between. But if one person takes charge of the big money issues it is important that their partner understands their joint financial position and is included in all decision-making.

If you find it difficult discussing more complex money matters with your partner, make a point of sitting down together with your financial and legal advisers so you both understand your financial position. And it goes without saying you should never sign a document you don't understand.

Educate your children

The sooner you teach children good money habits the better. When they are young, help them open a bank account and set savings goals. When they are older, consider including them in family budget meetings and encourage them to get a part-time job to help pay for major purchases or a gap year trip.

By establishing good money relationships with your children early in life it should be easier to discuss difficult issues such as your estate plan and perhaps their inheritance. With a bit of luck, by setting a good example you may help them successfully negotiate their own financial journey.

i. ABC News, 24 June 2014, http://www.abc.net.au/news/2014-06-24/gina-rinehart-family-feud-over-billion-hancock-mining-trust/5544760

ii. 'Financial stress main cause of divorce' by Marissa Calligaros, Brisbanetimes, 12 Oct. 2008, http://www.brisbanetimes.com.au/news/queensland/financial-stress-main-cause-of-divorce-for-women/2008/10/14/1223749983243.html

iii. Smart Company, January 2014, http://www.smartcompany.com.au/finance/wealth-management/35083-secret-bank-accounts-see-people-stash-over-100-000-from-their-partner.html#

Grandparents unsung childcare heroes

It's meant to be a time to kick back and pursue all those interests you put aside while you worked and raised a family. But increasingly, grandparents are being called on to fill the gaps in Australia's formal childcare system while their adult children go out to work.

Grandparents provide a staggering 23 per cent of all childcare to children under 12 in Australia, according to a recent AMP NATSEM report.[i] The figure is even higher for pre-schoolers because of the high cost of formal childcare and restricted opening hours.

And in a small but growing minority of cases, grandparents are the sole carers of their grandchildren. For the estimated 63,250 grandparents in this position, the financial burden can put severe strain on their limited retirement income.[ii]

Know your limits

In most cases though, grandparents are only too happy to help out for free and regard looking after the grandkids as a joy, not a burden. But it seems joy has its limits.

According to research from the University of Melbourne, older women who took care of grandchildren one day a week had better memory and faster cognitive speed than those who didn't.[iii]

The study found that good social, emotional and mental health are associated with reduced likelihood of getting Alzheimer's Disease. Lively grandchildren certainly provide all these benefits in spades. But so does a game of bridge or a day out sailing, and these activities are arguably less taxing than chasing after a two-year-old.

Indeed, the Melbourne study also found that women who cared for grandchildren five or more days a week had significantly less processing speed and planning scores, possibly because they felt exhausted. These women were more likely to report anxiety and stress because they felt their children were being demanding.

A difficult dilemma

Ian Yates, of national seniors advocacy group COTA Australia, says this poses a difficult dilemma for grandparents who often feel they are not living the life they thought they would.

"We find that some grandparents, usually the grandmother, stop work to look after grandchildren so their children can go to work. Premature departure from the workforce is not good for your physical, mental or emotional health", he says.

Arguably, it is not good for your financial health either. This is especially so at a time when governments are winding back pension entitlements and encouraging everyone to stay in paid work for longer.

So what can grandparents do to strike a balance between helping the family and enjoying an active retirement?

- Have a conversation. Right from the start you need to have an explicit conversation with your children to set out what you do and don't want to do. Unless you speak up they may not know when you feel your time is being encroached upon.
- Look for alternative solutions. Is there another set of grandparents or family members who can help out? If formal childcare is not flexible enough, perhaps some paid home-help could step in for a day or two during the week.
- Put your own health first. Prevention is the best medicine for healthy ageing, so make sure you know your physical and emotional limits. Minding children five days a week is stressful, even for young parents, but especially when you are trying to juggle other activities in your life.
- Spending time with the younger generation, free of the demands of parenthood, is one of the perks of being a grandparent. But care needs to be taken that it doesn't become an imposition on the older generation, their health and wellbeing and their hip pocket.

i. AMP NATSEM 'Childcare affordability in Australia', June 2014, page 7, http://www.natsem.canberra.edu.au/storage/AMP_NATSEM_35.pdf

ii. 'Grandparents need greater help for shouldering primary responsibility for primary care of grandchildren', COTA Australia, 2 April 2014, http://www.cota.org.au/lib/pdf/COTA_Australia/publications/media_releases/cota_mr_grandparents_020414.pdf

iii. "Grandparenting keeps the wheels turning', http://newsroom.melbourne.edu/news/grand-parenting-keeps-wheels-turning