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2014 TIPS Newsletter Winter

Welcome to our new look Winter newsletter.

In this edition you will find articles on a range of finance related topics to ensure you're up-to-date and well informed on all the latest news.

If you have any questions or enquiries about any of the articles in our newsletter, or any other financial planning topic, don't hesitate to contact the TIPS team on 6465 5400.

We hope you enjoy the read and please feel free to forward our newsletter to your family, friends or colleagues.

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Users to pay for aged care

The decision around whether to get some home help or move to where you or a loved one can get support and care is never an easy one.

But from 1 July changes to the aged care system should give individuals and families a clearer understanding of the choices they have and the cost of getting home help or moving to residential care.

The provision of aged care services remains subsidised by the Government, but the focus of the changes is that those who can afford to contribute to the cost of their care should do so.[i]

Home-based care

For people wanting to stay in their own home as long as possible, the Home and Community Care program is the simplest way for people to get help.

Basic services such as cleaning can be accessed following a simple assessment by an approved provider. The amount a person pays for this will depend on the service, the frequency and their financial situation. However, no one will be denied a service they need, based on an inability to pay.[ii]

Where a range of services are needed for a person to remain in their own home there is a more comprehensive Home Care Package.

Ability to pay

Someone on the Age Pension will be charged a maximum fee of 17.5 per cent of the basic rate of single pension, with a maximum set at $9.57 a day.

People on higher incomes may be asked to pay additional fees (limited to 50 per cent of any income above the basic rate of single pension).[iii]

Individuals considering the Home Care Package need an assessment by an Aged Care Assessment Team, arranged through a General Practitioner or within a hospital. They can also be found on www.myagedcare.gov.au.

ACAT assessments are also needed for anyone entering residential care.

Single fee structure

One significant change to reforms covering residential care is the removal of the distinction between low level care and high level care.

In addition, all residents will be subject to the same fee structure, known as an accommodation payment, which will depend on a resident's assessable income and assets.

Residents with greater means will have to pay more for their ongoing care but caps will be put in place to protect those who receive care over a longer period.

Residents will be able to choose whether they pay for their accommodation as a refundable accommodation deposit (RAD) and equivalent daily accommodation payment (DAP) or a combination of both.

To help people determine whether they can afford a certain facility, all facilities must publish their prices on their website as well as a Government website myagedcare.com.au.

Keeping the family home

The income-tested fee for care is to be replaced with a means tested care fee to determine how much a resident can pay towards the cost of their care. Going forward a person's home may play a greater role in the financial decision making around going into care.

Where someone going into care owns their own home and no-one eligible lives in it, a portion of its value – currently set at $144,500 and indexed to $153,905 - will count towards the assets test. Under the new rules many residents may end up paying a lower means-tested care fee if they keep their home.[iv]

The new rules apply to individuals who enter residential aged care on or after 1 July 2014, with existing residents grandfathered under the current rules. The rules are complex so please don't hesitate to contact us if you would like to discuss your own aged care considerations or those of your loved ones.

i ChallengerTech_Aged Care reforms

ii http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/Consumer-Directed-Care-Home-Care-Packages

iii http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/Consumer-Directed-Care-Home-Care-Packages

iv ChallengerTech_Aged Care reforms

Living and dying: doing it your way

Living longer is something to be celebrated. But it can be a less settling prospect if advancing age or an accident reduces your capacity to make decisions. Worse still, if you are incapacitated.

It is a good reason to make provisions ahead of time to pass on some, or all, of the responsibility relating to your financial and other affairs. This might include how you want your future health, medical treatment and personal care to be managed.

The following 'tools' are governed by different state-based laws so it is important to seek the advice of a qualified legal practitioner.

Power of attorney

A power of attorney is an important legal document which gives someone else the power to make personal or financial decisions on your behalf.

A general power of attorney becomes invalid when the person who prepared it loses the mental capacity to make their own decisions. An enduring power of attorney continues to operate even after they lose capacity such as through dementia, after a stroke or following an accident.

When a power of attorney is drawn up, among other things required by various state laws, it is important that the person making it has capacity when they sign the document. [i]

They must be capable of understanding the nature and effect of the power of attorney and the range of decisions which the attorney can make on their behalf. They must also understand that those decisions can be made without consulting them.

The attorney role

Generally an attorney will make decisions concerning your finances, including operating your bank accounts and paying bills or buying and selling assets, so it is important to choose someone you trust.

Limits or conditions can be included in the power of attorney. For example, you can give the attorney limited authority to do specific tasks, such as paying regular bills but not selling property.

An enduring power of attorney is critical for members of self-managed super funds[ii] in order to ensure that the fund remains compliant in a smooth and stress-free manner after a member, who must also be a trustee, loses capacity.

If a member loses capacity they can no longer be a trustee which, if not resolved, may result in the fund no longer meeting the requirements of being an SMSF. Having an enduring power of attorney in place ensures it remains compliant as seamlessly as possible.

Medical directives

Something an enduring power of attorney can't do is make medical decisions on your behalf. This is covered in a medical power of attorney. In consultation with doctors and other relevant people your attorney may make medical decisions, including those concerning operations or treatment options.

In addition to powers of attorney you can also prepare an enduring power of guardianship and an advanced healthcare directive (or living will) to help with decision making. [iii]

An enduring power of guardianship gives a person the right to choose where you live and make decisions about your medical care and other lifestyle choices, if you lose the capacity to make your own decisions. An advance healthcare directive (or living will) provides specific instructions about medical treatment if, for example, you are terminally ill or permanently unconscious.

Where there's a will

Equally important as telling people how you would like your financial and personal affairs handled while you're alive, is what should happen when you die.

A will is also a legal document which can cover things like who should get which assets, whether any trusts should be set up, where money should go and even instructions about your funeral.

A will and possibly the establishment of trusts can be extremely important where there are blended families. Without clear instructions, specific family beneficiaries, such as grandchildren, may miss out or your estate may be contested.

If you care what happens in the event that you can't make decisions for yourself while you are alive, or after you have gone, having the right legal documentation in place will ensure your wishes are carried out.

i http://www.ncat.nsw.gov.au/agdbasev7wr/_assets/ncat/m771022l8/planning%20ahead%20-%20enduring%20power%20of%20attorney.pdf

ii http://www.professionalplanner.com.au/superannuation/2011/10/27/no-enduring-power-of-attorney-no-smsf-11864/

ii https://www.moneysmart.gov.au/life-events-and-you/over-55s/wills-and-power-of-attorney#attorney

Tips and traps of credit

Starting out with a HECS debt is bad enough, but abusing a credit card can also mean trouble. Admittedly it's tempting to spend with interest rates at current levels, but most credit cards still have double-digit rates.[1]

Of course a card is useful when you don't have ready cash, but unless you pay off the balance in full each month the interest costs add up.

Credit card statements today must show how long it will take to repay the debt, and how much extra interest you pay if you only make the minimum payment each month. The MoneySmart calculator is also a useful tool to show you how much more you owe on your card.[2]

Running up large credit card debt can result in a poor credit rating that can come back to bite you down the track.

For instance, if you are just five days late in paying your credit card, this fact may be noted on your credit file. If you are 60 days late in paying any form of credit, then you may be issued with a default or other negative listing.[3] That does not sit well when applying for a mortgage.

It is estimated that the average household credit card debt for the 56 per cent of Gen Y's who have credit cards is $6,000.[4] Much of this is lifestyle debt – money spent on clothes, entertainment and holidays rather than appreciable assets like property.

For Gen Y's wanting to get ahead financially, the first step is to pay down a credit card. This will help provide space in a personal budget to think about starting a regular savings plan.

Interest-free store deals

Interest-free store deals can prove lethal, they are not free with both fees and charges attached. If the purchase balance is not paid in full within the interest-free period, you will be charged interest on the outstanding balance at rates that can be close to 30 per cent. In some cases, the interest may revert to when you first made the purchase.[5] Paying huge interest costs on a depreciating asset long past its prime is a wasted effort.

Amalgamating all your debt into the one account and then paying a lower overall interest rate may be an option but this also has a downside as it may mean extending the repayment of what was previously a short-term debt over a longer period, which can cost you more in interest.[6]

There is no doubt credit cards can play an important role in life, but you need to make sure they are working for you and not the other way round. If you are concerned, speak to an adviser about getting a savings plan in place today.

1 http://www.canstar.com.au/credit-cards/compare-credit-card-rates/
2 https://www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/credit-card-calculator
3 http://mycra.com.au/blog/2013/07/16-25-drowning-debt-guide-make-credit-work-you/
4 http://www.genworth.com.au/downloads/4-2-3-Spotlight/spotlight-series-gen-y.pdf
5 https://www.moneysmart.gov.au/life-events-and-you/under-25s/credit-and-debt/types-of-credit Interest-free deals
6 https://www.moneysmart.gov.au/managing-your-money/managing-debts/consolidating-and-refinancing-debts