Keeping up with change

The frantic pace of change in the world today can undermine the best laid plans. So when it comes to managing your wealth it’s essential to keep your financial plan up to date. In this edition of Inner Circle we highlight four areas currently experiencing change to help you identify opportunities to improve your financial situation.
Welcome to the Autumn edition of Inner Circle

I hope you enjoyed the holiday period and that 2014 has started off well for you and your families.

As you will have seen in our communication on 13 January, Centric Wealth has entered into a bid implementation agreement (BIA) with Financial Index Wealth Accountants (FIWA) to acquire all shareholdings of Centric Wealth. This is an exciting time for Centric Wealth. Together with FIWA we will have the resources to enhance our respective services for the benefit of all our clients.

Becoming part of a larger firm will open up many new opportunities including the ability to share ideas and develop new and enhanced services and offerings. Please be assured that your adviser will remain the same, we will remain non-aligned to any major bank or institution and the Centric Wealth brand will be unchanged. Any changes we do introduce over time will be as a result of reviewing and strengthening our mutual systems and processes with the aim of providing you with a better service.

Investment performance update

Australian investors enjoyed strong returns from equities and property over 2013. The Index of the top 100 stocks on the Australian Stock Exchange returned more than 20% for the second year running, while the falling Australian dollar contributed to a return on the broad index of international shares of 42%, following a return of 14% in 2012. The strong returns of the last two years have come in the face of a spluttering global economy with concerns on European sovereign debt, a slowdown in Chinese growth, the US debt ceiling debacle and more close to home, the end of the mining investment boom.

Expectations for returns from the year ahead remain more modest than previous years. The US Federal Reserve will continue to rein in its level of money printing, albeit that most central banks around the world are likely to maintain very accommodating monetary policy. Domestically, growth appears to continue to slow, with the pickup in housing and retail sales yet to fill the hole left by one of the greatest mining investment booms in history. Continuing weakness in the Australian dollar will help to combat the expected weakness in the labour market.

Our multi-asset class model portfolios have reflected the strong performance in markets, and our regular asset allocation reviews and rebalancing continues to add value.
December 2013 Model Performance

Returns over the last year % at 30 December 2013

<table>
<thead>
<tr>
<th>Research</th>
<th>Listed</th>
<th>Unlisted</th>
<th>Morningstar</th>
</tr>
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<tbody>
<tr>
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<td>7.75%</td>
<td>11.75%</td>
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<td>B</td>
<td>16.29%</td>
<td>12.73%</td>
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<tr>
<td>C</td>
<td>19.90%</td>
<td>17.37%</td>
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<tr>
<td>D</td>
<td>24.05%</td>
<td>23.38%</td>
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<tr>
<td>G</td>
<td>25.63%</td>
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Returns since inception %pa at 30 December 2013

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<tr>
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<tr>
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<td>8.02%</td>
<td>6.40%</td>
<td>8.60%</td>
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<tr>
<td>A+</td>
<td>02/2013</td>
<td>10.58%</td>
<td>11.43%</td>
<td>10.20%</td>
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<tr>
<td>B</td>
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<td>9.32%</td>
<td>7.51%</td>
<td>10.25%</td>
</tr>
<tr>
<td>C</td>
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<td>10.24%</td>
<td>8.68%</td>
<td>11.42%</td>
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<tr>
<td>D</td>
<td>05/2011</td>
<td>11.13%</td>
<td>9.81%</td>
<td>12.55%</td>
</tr>
<tr>
<td>G</td>
<td>05/2011</td>
<td>11.17%</td>
<td>9.81%</td>
<td>12.68%</td>
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</table>

This edition of Inner Circle

After reflecting on the change going on within our business it became clear that nothing ever really stays the same. Change is constant. So in this edition of Inner Circle our articles focus on highlighting areas that are currently experiencing change.

Louise Donald looks at accommodation bonds in aged care, which are due to change from 1 July this year as a result of the government’s aged care reforms. Curtis David explores the issues surrounding the decision to hold TPD insurance inside superannuation. This is timely because new laws will prevent super funds from setting up new ‘Own Occupation’ TPD cover in super from 1 July. Ben McBride, contemplates the changes that are likely to come about due to the ageing population. The final article, by Stuart Turner highlights how the lending market has changed and the opportunities it presents for you to pick-up a better interest rate on your loans.

As you can see, changes take place across a range of areas. This reinforces the need to approach your wealth management from a holistic perspective. So if you or your family haven’t taken advantage of the expertise offered by all of Centric Wealth’s Advisers in the areas of financial planning, lending and risk you may want to think about making an appointment soon.

I hope you find the articles in this edition of interest. As always, should you have any feedback or queries please don’t hesitate to contact myself or your adviser.

Warm regards,

Phil Kearns
phil.kearns@centricwealth.com.au
Making sense of accommodation bonds in aged care

Louise Donald, Wealth Adviser
Centric Wealth Advisers, Brisbane

There are many misconceptions within the community about the cost of moving into an aged care facility (commonly known as nursing homes). The reason for this is undoubtedly due to the complexity around bonds. This can make moving into an aged care facility a stressful time for everyone involved.

To help make the process less daunting for prospective residents and their families, this article answers some of the most common questions people have about accommodation bonds in aged care.

What is the bond used for?
An accommodation bond, or accommodation charge, is payable upon entry to an aged care facility by the majority of residents. The aged care facility holds the bond in ‘trust’ for the resident and uses the interest earned on the bond to assist with general maintenance costs associated with the aged care facility.

Which facilities require a bond?
Currently, aged care facilities are classified as either ‘low care’ or ‘high care’. A lump sum bond is generally required upon acceptance in a ‘low care’ aged care facility but there is no bond payable if you are assessed as requiring a place in a ‘high care’ facility.

From 1 July 2014, the aged care reforms will remove the distinction between low and high care. Consequently, there will be a bond payable for all aged care facilities for residents required to pay one.

What is the maximum bond payable?
The amount of bond payable depends on a number of factors, however a key factor is the financial situation of the person entering the home. Currently, the aged care facility can charge any amount of bond as long as the resident is left with at least $40,000 in assets.

The maximum bond payable is dependent on the assets of the person entering the aged care facility. You can choose to have an asset assessment carried out by Centrelink or the Department of Veteran Affairs, but it is worthwhile speaking to a qualified financial adviser before completing any asset assessment forms. Once an assessment has been carried out an aged care facility must abide by these figures when determining your accommodation bond.

If you are able to do so, it may be beneficial to pay a higher bond. Paying a higher bond on entry to a facility can have several benefits:

- Generally the higher the bond required (and that you can afford) the higher quality the facility you will be able to select
- Negotiating a higher bond may guarantee you a spot in your chosen facility where competition for spots is tight
- It may increase the level of age pension received as the bond is not assessable for the purposes of the Centrelink Assets and Income Test.
- A higher bond may put a resident in a position to negotiate a reduction in the daily care fee.

From 1 July 2014, all aged care facilities must advertise their maximum required bond, therefore negotiating a higher bond than this will not be possible after that time.

If a resident does not have enough assets to meet the full bond required, they may be granted a spot at the facility as a partially supported resident and pay a lower level of bond. Where a person does not have assets above $44,000, they would need to find an aged care facility with fully supported resident spaces available. This is why a person may miss out on a spot at their preferred facility if that facility doesn’t have the ‘right’ spot available to them (which will depend on their assessed situation) at the time of entering the facility.
What assets are assessable when determining maximum bond payable?

The asset test applied in determining the maximum bond payable is the same as the asset test applied by Centrelink for Age Pension entitlements, with the main difference being that your home will also be assessable.

There is an exception to this rule where your home will not be assessable as an asset in the accommodation bond process if when you enter the aged care facility:

- Your spouse is living there
- Your dependant child (under age 18 or under 22 and a student) is living there
- A carer who is eligible for an income support payment has been living there for two years
- A close relative who is eligible for an income support payment has been living there for at least five years

Assets include, but are not limited to:

- Your home (unless above rule applies)
- Household contents, personal effects, collections, etc (fire sale value)
- Motor vehicles – cars, bikes, caravans, boats, trailers, etc
- Cash accounts, term deposits, bonds
- Investment portfolios (shares, managed funds, etc)
- Investment properties/land/holiday homes
- Superannuation or Account Based Pension member accounts
- Businesses and farms
- Surrender value of life insurance policies
- Gifts or loans made to family members

How much bond will be returned to the resident or their estate?

One of the biggest misconceptions is that bonds payable upon entry to an aged care are lost to them or their estate forever.

Currently upon exit from an aged care facility the original bond amount will be returned to the resident or their estate minus a retention amount. The current retention amount deducted from bonds over $39,720 is set at a maximum of $331 per month for a maximum of 60 months ($331 x 60 = $19,860).

From 1 July 2014, there will be no retention amount deducted, the full bond amount will be refunded, this is also reflected in the new name for lump sum bonds from 1 July 2014 – ‘refundable accommodation deposit’.

Providers are required to pay interest on an accommodation bond balance for the period from the day after the resident leaves the care service until the accommodation bond balance is refunded. The interest rate payable to the resident is set by the Government at the lower social security deeming rate plus 2%.

It should be noted that residents who elect to pay the bond by interest only instalments do not receive any of this back from the aged care facility on exit. The reason for this is that they are basically paying the facility the interest it is forgoing by not holding the bond as a lump sum.

Summary

People are often reluctant to make the choice to move into a nursing home and this often stems from the misconception that they will lose a large portion of their accumulated assets through payment of a bond. While there are a number of different fees associated with moving into an aged care facility, there can be benefits of moving into a facility where a larger bond is required.

The issues explored in this article are fully covered in a Centric paper titled ‘De-mystifying nursing home bonds’. The paper aims to de-mystify bonds payable upon entry to aged care facilities and how they can actually be used to a person’s advantage from a Centrelink Age Pension perspective. If you would like a copy of the paper, or would like to talk to one of our aged care specialist advisers, please contact us on 02 9250 6500.

Here at Centric Wealth, our Advisers can assist you and your family with making the decision to move into a an aged care facility. We can assess the affordability of the options available to you, your funding options, and the financial impact these will have on your estate in the longer term.
3. What are the tax benefits of funding TPD insurance inside super?

One of the main benefits of funding TPD insurance inside superannuation is the tax deductibility of the premium. Many people assume that all premiums are 100% tax deductible but this isn’t the case. Only the premiums of some types of TPD cover are fully tax deductible to the fund.

In 2008 the ATO stated that only TPD insurance premiums paid for cover equivalent to the “Any Occupation” definition are fully tax deductible to the super fund. This meant that TPD insurance with an easier definition to satisfy, such as an ‘Own Occupation’ definition, would not be fully tax deductible to the fund. The following table outlines the percentages specified by the ATO.

<table>
<thead>
<tr>
<th>Policy Type</th>
<th>Deductible Portion of Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Occupation TPD cover linked/ bundled with Life Cover which can include additional TPD definitions*</td>
<td>100%</td>
</tr>
<tr>
<td>Stand Alone Any Occupation TPD, which can include additional TPD definitions*</td>
<td>100%</td>
</tr>
<tr>
<td>Own Occupation TPD cover linked/ bundled with Life Cover, which can include additional TPD definitions*</td>
<td>80%</td>
</tr>
<tr>
<td>Stand Alone TPD Own Occupation which can include additional TPD definitions*</td>
<td>67%</td>
</tr>
</tbody>
</table>

*Additional TPD definitions include:
- the loss of their ability to perform activities of daily living
- Cognitive loss
- Loss of limbs or paralysis
- The ability to perform domestic (home) duties
4. Will you be able to access payment of a TPD benefit inside super?

To receive a benefit payment from a super fund a member must satisfy one of the ‘conditions of release’. The conditions of release are:

- reaching age 65, or
- reaching preservation age and being permanently retired, or
- becoming permanently incapacitated.

‘Permanent incapacitated’ means a superannuation trustee is reasonably satisfied that a member is unlikely, because of physical or mental ill-health, to engage in gainful employment for which they are reasonably qualified by education, training or experience.

As permanent incapacity usually aligns with the ‘Any Occupation’ TPD definition, insured benefits should be accessible. However, this may not apply to ‘Own Occupation’ policies. In other words, if you have an ‘Own Occupation’ TPD policy inside super and a benefit is paid, the super trustee may not be able to release funds to you until one of the other ‘conditions of release’ is satisfied.

5. How will a TPD payment be taxed in super?

It is a common misconception that lump sum TPD super payments are tax free. While part of a TPD benefit paid may be tax free, lump sum and income stream payments are taxed under the superannuation benefit payment rules and will vary depending on your age and benefit amount you receive. In some cases, your benefit may be taxed at 20% plus Medicare levy currently at (1.5%).

6. Should you use your retirement savings to pay premiums now?

Whilst you can structure your TPD cover inside super in a tax effective manner, you are ultimately paying premiums from your funds for retirement. As a consequence you may need to make adjustments or increase your super contributions to ensure that you have enough saved for retirement whilst funding insurance premiums. Depending on your stage of life, ensuring that you have as much funds inside super as possible for when you retire may be more important than insurance premium tax deductibility.

No new ‘own-occupation’ TPD cover in super from 1 July 2014

Currently you can have ‘Own Occupation’ TPD insurance inside super, however new laws will prevent super funds from setting up new ‘Own Occupation’ TPD cover inside super from the 1st July, 2014. Clients who may want ‘Own Occupation’ TPD cover inside their super should speak to their Adviser soon to see if it’s right for them before the new laws take effect.

Trying to get the best from both worlds

From experience, most of my clients want to have as much of their insurance premiums paid in a tax effective environment like super, whilst still having the best cover available like ‘Own Occupation’ TPD, structured in a way that the benefits will be as easily accessible at claim time.

Insurers have now come up with a solution which allows you to have both. Insurers now offer TPD cover where part of the premium can be funded inside super, yet provide TPD cover with an Own Occupation definition held outside super giving you a better chance of making a claim.

This type of cover allows you to maximise the tax deductibility of placing TPD cover inside super, but at claim time, if you satisfy an ‘Own Occupation’ TPD definition but not an ‘Any Occupation’ definition, the benefit will be paid to you outside super so that you avoid having the benefit potentially being stuck inside super when you need it the most. This is an attractive alternative to holding TPD ‘Own Occupation’ cover inside super.

Structure your TPD insurance the right way

After looking at all the things that need to be considered when holding TPD insurance inside superannuation, it may seem simpler to fund the premiums outside super. However, by doing this you may miss out on the benefits of structuring your insurance in the most tax effective manner for your circumstances. To make sure your existing TPD insurance is structured in the best way, it’s worthwhile discussing this matter with your Centric Wealth Adviser.
The consequences of increased longevity has become a major issue not only for each of us at a personal level, but for society as a whole.

In the last edition of Inner Circle, I highlighted some practical actions you can take to reduce the likelihood of outliving your money in my article titled ‘The longevity puzzle’. In this edition, I look into how the government and industry are responding to a population that’s not only aging, but also living longer.

**Under pressure**

The Federal Government’s Intergenerational Report 2010 examined the scale and range of challenges posed by Australia’s ageing population over the next four decades. The report estimated that the proportion of Australians over age 65 will increase from 14.5% of the total population to over 23% between now and 2050 (Graph 1). At that time there will only be 2.5 working age Australians to support each Australian aged over 65. This compares to a current aged dependency ratio of 4.5 to 1. (Graph 2).
An ageing population will put significant pressure on government expenditures in areas like age pensions and age related health costs, such as pharmaceutical benefits, nursing homes and mental health care. Meanwhile there will be a lower proportion of taxpayers paying income tax to support the revenue base.

The potential implications for future government policy may mean that we see governments considering:

- Increases in the age pension age (which is already due to rise to age 67 between 2017 and 2023),
- Aligning the age pension age and preservation age in superannuation,
- Higher consumption taxes to limit the burden on income tax payers,
- Further taxes on superannuation and pensions,
- Reductions in infrastructure and education spending to fund increased health spending,
- Taxes designed to transfer wealth from older generations to younger generations, such as the introduction of capital gains tax on a principal residence which would affect a greater proportion of older Australians,
- Limiting the ability to take lump sums from superannuation, where the government compels retirees to use annuities as already happens in most other countries around the world.

Political pressures, particularly from the increasing ‘seniors’ vote may well restrict how many of these policy ideas get implemented. However there are two certainties. Firstly the government’s budgetary position will be under substantial pressure by baby boomers who will expect at least the same level of government assistance that they themselves supported for their preceding generation. Secondly, the level of legislative risk for financial planning retirement strategies will increase because of the budgetary pressures.

**Implications arising from the ‘Agequake’**

Paul Wallace’s book ‘Agequake: Riding the Demographic Rollercoaster’ considers how the seismic shift in the age profile of populations worldwide will be amongst the largest factors shaping the way that businesses and financial markets will operate in the coming century.

While he highlights opportunities for businesses and workers he also warns that shrinking populations will be a drag on economic growth as capital will move in ways that we are unprepared for, such as:

- retirees looking to fund incomes through selling investments or moving out of growth assets, and
- the way cross border transfers of capital will take place away from older economies and into young developing countries.

While many people focus on the rapidly aging and shrinking population of Japan, China’s ‘one child policy’ also means that it also faces a similar demographic ‘agequake’. The recent softening of this policy has been described as “too little, too late”. India is estimated to overtake China as the world’s most populous country in 15 years’ time, at which point China’s population is expected to begin to fall. For a country like Australia that has tied itself so closely to the growth of China this clearly has a profound ramification for the economy. All the while, views on immigration will need to adjust as countries come to terms with shrinking total populations.

**Investment opportunities in a greying economy**

The shift in public expenditure in a greying economy will be mirrored by private sector investment. This brings opportunities for investors. “Longevity businesses” are companies who are exposed to the growing needs of older consumers. These businesses include private hospital operators, pharmaceutical companies, retirement property and infrastructure businesses, tourism operators, post retirement financial services and senior’s education providers. At the same time, retirees tend to spend less of their income on housing, insurance and transportation than pre-retirees.

By far the biggest opportunities lie in health services. While life expectancy has continued to rise strongly across the world, health expectancy (that is the number of years we live free of major illness or disability) has not risen at the same rate. Healthcare costs have also risen well above the rate of inflation as more services are created and new technologies continue to extend life. These rising costs can’t be sustained, bringing into question the need for health care reform, greater levels of preventative health care and innovation in health care. This also represents opportunities for investors.

Good fund managers remain cognisant of these trends and have been allocating their capital accordingly. Health care stocks have been the highest returning sector within the Australian stock market over the last decade, returning 17.6% per annum to the end of August compared to the wider market which returned 9.3% per annum in the same period. That does not mean that investors should blindly chase exposure in this sector. Even current valuations are factoring in the potential growth and may be stretched or vulnerable to shorter term influences.

All Australian’s will be impacted by the social and political consequences from an aging population. Being aware of these demographic trends mean that we can adapt and benefit from the changes from an investment perspective. At Centric Wealth, we retain a long term approach to investing and this means ensuring that we have reflected the opportunities from these long term trends in your portfolios as we to strive to continually add value.
Do you know if your current bank is offering you the best rate and structure on your loan/s? The lending market is now much more competitive than it was two years ago, creating more opportunities for you to pick up a great rate – without having to leave your current lender.

What has changed in the lending market?
Over the past two years the banks’ appetite for ‘risky’ loans has returned. Their appetite for ‘risky’ loans diminished after the GFC hit in 2008. At this time, banks reined in their lending parameters for non-conforming loans (that is, loans over 90% of the property value and Low Doc Facilities) where the risk to the bank was too great.

Consequently, banks started to introduce price for risk. This is where banks offer better interest rates and greater discounts for low risk loans than they did for high risk loans. This clearly demonstrated the banks appetite for ‘risky’ loans was low. In this environment obtaining a great rate hinged greatly on how well a client presented to the banks.

However, with the cash rate progressively falling to 2.5% over the past two years, the banks’ appetite for risky loans is back. Banks are competing with each other to win business by offering cash rebates to re-finance, low fixed rates and life of loan discounts on variable rate facilities. Even though these offers and incentives are targeted to clients who move banks, don’t assume you can’t obtain discounts from your existing provider. Banks will take client loyalty into consideration when renegotiating loan rates and structures – especially for clients who have been loyal to their existing home loan provider for five years or longer.

Case Study – getting a better rate from your existing bank
I recently met with a highly successful business owner who had a significant loan with one of the big four banks for the past 10 years. Although the client thought he was getting the best rate possible in the market, he agreed to meet with a Centric Lending Adviser to have his mortgage reviewed.

After pulling together a quick snapshot of his current debt, our Lending Adviser uncovered that the client could have been entitled to a Life of Loan discount of 1% off the standard variable rate if his loan was structured as a Professional Package. This would have resulted in a saving of $18,000 per annum.

The client’s local bank branch advised that they did not provide a Professional Package at the time the loan was established. I approached the bank and acted on the client’s behalf and within 48 hours had obtained an $18,000 saving for the client with their existing lender. You can imagine his reaction of happiness, and his disappointment that the local branch did not think to offer the Professional Package structure to him when it became available.

It pays to review your loan regularly
As the case study demonstrates, even if you think you are paying the best rate there may be opportunities to structure your loan in a different way to obtain a better rate, saving yourself thousands of dollars in the process. This is especially so if your loan was set up before the GFC, as there are many more discounts available in today’s market.

In fact, regularly reviewing your loan arrangements is a sensible thing to do given that buying a property is likely to be one of the biggest purchases you are likely to make in your lifetime. Obtaining the best structures and most competitive rates has never been easier since the introduction of brokers and advisers to the Mortgage Industry.

How Centric Wealth can help
We can act on your behalf to ensure you are receiving the best loan facility for your needs. Most often, we recommend that you stay with your existing bank but we can look at other alternatives for a better solution.
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We have your best interests at heart - first and foremost

Our objective is to help clients achieve a confident state of mind – a confidence that their financial affairs are being soundly managed via philosophies and services that they recognise as intelligently constructed and relevant to their needs. You should know that the experts entrusted with providing advice and investing your money have your interests to heart – first and foremost.

Centric Wealth assists individuals and their families in growing, protecting and managing their wealth while achieving their lifestyle goals. We build long term trusting relationships and enable clients to feel confident and secure that their financial life is in order.

Contact one of our advisers today to find out more about our wealth solutions.

Email info@centricwealth.com.au
or visit www.centricwealth.com.au