LIFE Strategies TODAY

June 2014

Living Longer Living Better - Aged Care Reforms

In June 2013 the government passed a number of laws, changing the aged care system. The changes are intended to:

- increase the options available for those requiring aged care
- provide flexibility and choice on how residents can pay their accommodation costs
- align fees for aged care services more closely to individual circumstances.

Whilst the reforms affect the entire aged care system and some changes have already commenced, the key changes affecting those moving into a residential aged care facility will start on 1 July 2014.

For new residents entering residential aged care on or after 1 July 2014, the key changes include:

- removing the current distinction between a high and low-level residential care
- providing all residents with the option to pay for their accommodation fees as a lump-sum or as a regular payment
- Limiting the amount of an accommodation payment, meaning a higher amount can no longer be negotiated
- no longer allowing a facility to deduct a monthly retention amount from the accommodation amounts paid
- allowing residents to select the types of extra services they receive from their selected facility
- replacing the current income-based care fee with one that is based on an income and asset Assessment
- removing the daily care fee cap and replacing it with an annual and lifetime cap.

In summary, while the reforms introduce some more flexibility and transparency, it is likely that aged care fees will be higher for clients entering on or after 1 July 2014 when compared to a resident in similar circumstances who entered before that date.

Next steps

Here at Life Strategies Financial Services we are equipped to help you or loved ones transition to aged care. To find out more about these reforms or to understand how the changes may impact your personal circumstances and how we can help, please contact us on 02 9487 8200 to make an appointment.

Get your Life Insurance while you are still fit and healthy.

Insurance companies can often shut the stable door early, particularly if the horse has already bolted or even looks like bolting.

For example the removal of a low level skin cancer can mean 5 years of waiting before obtaining death cover at standard rates (ie without paying higher premiums) because there is a remote chance the cancer has or will spread to other areas.

In these circumstances exclusions for cancer are also likely with other forms of cover like income protection and trauma insurance and in some cases can prevent you getting any form of cover at all in future.

Similarly if you have ever had an episode of stress or anxiety it could mean an exclusion from claims for any condition similar to this including depression. The exclusion could last indefinitely or may be removed but only after 3 -5 years of being symptom free (and usually in very mild cases only).

As we get older our metabolism also slows and we start to gain weight. Your weight is a big factor in determining your Body Mass Index (BMI) which affects what cover you are eligible for if any, and how much premium you may have to pay.

In these and other cases, good health is like gold when applying for insurance, so the earlier the better, as once the cover is in place any changes to your health or lifestyle cannot affect your existing life insurances.

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Are We Saving Enough for our Retirement?

Deloitte Actuaries & Consultants has recently done some interesting research and analysis and concluded that we are not saving enough to cover our retirement.

On average a male is expected to live to 84 and a female to 87. Assuming retiring at age 65 then to have a 'modest lifestyle' (per AFSA Retirement Standard) of $22,654pa a male needs a lump sum of $330,000 and a female $360,000 (or if you want a 'comfortable' lifestyle of $41,197pa in retirement then a lump sum of $590,000 for males and $660,000 for females).

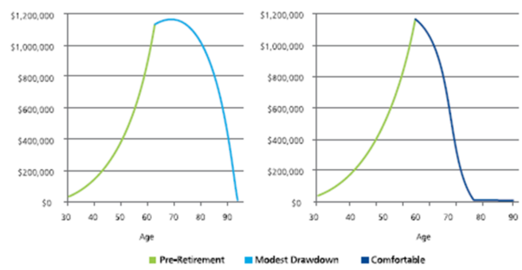
According to the AMP Retirement Adequacy 2012 the average super balance of 60-64 year olds is $77,000 and 65-69 year olds only $72,000. While averages only give part of the story it indicates we need to save more by making additional contributions or working longer.

Younger Working Aussies – is the SGC enough?

Deloittes Actuaries & Consultants also looked at workers who will have been received the compulsory SG super contributions for their full working life. They considered a 30 year old on $60,000 (median earnings for a fulltime employee aged 25-34 ABS data) with an average $27,000 in super (AMP Retirement Adequacy 2012). Deloittes' projection says that a 65 year old in 2048 will have $1.1 million in super (future dollars).

Before rejoicing, look at their graph below. To have a 'comfortable' retirement the balance will only last until age 77 (but 94 if you have a 'modest' retirement).

Figure 17: Projected account balances



Source: Deloitte Actuaries & Consultants, 2013

Deloittes estimates to be comfortable a 65 year old male needs $1.58 million and a female needs $1.76 million in the year 2048.

What does that mean in terms of super saving?

A male needs to make additional contributions at a rate of 5.4% and a female 7.5% on TOP of the compulsory SG rate to have a 'comfortable' retirement. Comfortable is how most of us want to spend our retirement years so what does that mean?

This is defined by the AFSA Retirement Standard as:

Modest retirement lifestyle –
Better than the Age Pension, but still only able to afford fairly basic activities.

Comfortable retirement lifestyle –
Enabling an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.

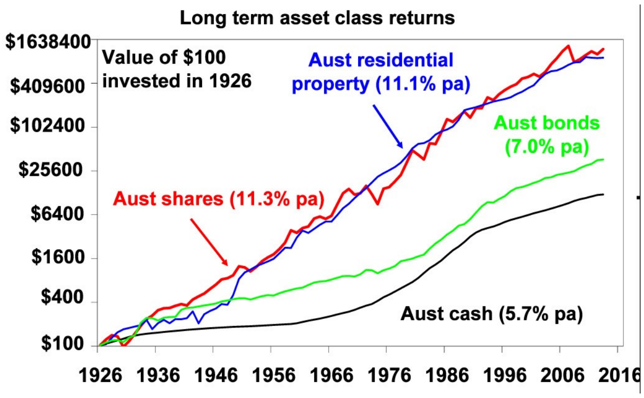
reduces your taxable income on which the Medicare Levy is charged and helps save a little more for your retirement too.

Females and Superannuation

It is extra important for females to be aware of their future for a number of reasons including we often take out years of our working life for child rearing and we also live on average longer than males. Other impacts are divorce, as being single is more expensive in retirement than being partnered. Alarmingly single females over 60 have the highest poverty rate of any family group in Australia at 35.8% (2013 Household, Income and Labour Dynamics in Australia (HILDA) survey.

What can females do to better prepare for the future? For starters take a moment to make calls and combine all super into 1 provider which saves fees, consider co contribution, also consider salary sacrificing the extra 7.5% suggested from the Deloitte analysis.

If this is too much even putting $50 a month into super (only 3 cappuccinos a week!) can make a difference. As every dollar put away in your 20's can mean up to an extra $7 in your 60's due to compound interest effects etc.



Next Year's Changes

With the Medicare levy increasing from 1.5% to 2% from 1 July 2014 this means additional 0.5% payable to fund the National Disability Scheme (eg. On $40,000 an additional $200 payable, $100,000 $500 more). To offset this payable one strategy is to salary sacrifice for example superannuation, this reduces your taxable income on which the Medicare Levy is charged and helps save a little more for your retirement too.

Preparing for end of financial year

(***Provided by One10 mortgage broking services***)

Asset Finance

Using asset finance to buy equipment for business purposes can offer several tax advantages:

Depending on the type of finance you get, you may be able to claim your interest or rental payments, or depreciation on the asset— these business expenses can be brought forward so they can be deducted from this year's taxable income

If you already have asset finance in place, speak with our team to make sure you're claiming all the deductions you're entitled to

Purchasing tip…

The end of financial year can also get you more for your money, with many equipment suppliers offering significant discounts and value added incentives like extended warranties and free options to help finalise the deal.

HOT OFFERS

Interest in advance loans

Top three 1-year fixed interest in advance loans

ANZ = 4.59%

NAB = 4.69%

CITI = 4.74%

Best deals from around the market

Express loans – automatic approval for business owners with 2 years ABN who are property owners, up to $300,000

Replacement finance – automatic approval for loans to replace an existing facility, or a facility paid out within the last 6 months, up to $200,000.

Recent Training attended

Sharni—

* In 2011 Sharni completed an Estate Planning Course at UTS law school and this qualification and work experience has now been formalized with an accreditation from our industry body the Financial Planning Association. She is now what they call an accredited Estate Planning Strategist (AEPS).
* Federal Budget 2014—Insights and Analysis
* Sydney Master Class Seminar—The Professional First Appointment
* How to Handle the Finances of ageing parents
* An Introduction to TASA (Tax Agents Services Act)
* Ibbotson Quarterly Investment Update

Michael—

* Certified Financial Planner—is continuing with ongoing studies
* Federal Budget 2014—Insights and Analysis

Team Update

We are pleased to welcome back Christine Tacadena as a part time Financial Planning Assistant.

Christine worked with us while she was studying and left in 2012 to gain financial planning experience with one of the major banks.

Download the QR code application on your smartphone then scan this code and it will take you directly to our website!

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