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Australian Financial Services Licence No 230458
Australian Credit Licence No 230458
ABN 12 062 230 424

TOTAL FOCUS Q2

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A cost effective strategy for caring for elderly relatives

With Australians living longer than ever before[1], combined with our aging population[2], the responsibility of caring for an elderly relative is a situation many of us will face during our lives.

While it's a film and TV cliché that once a family member reaches a certain age you ship them off to a retirement home and forget about them until the holidays, the reality is there are a range of living options you can choose from that will allow your elderly relatives to retain their independence while providing you with peace of mind.

Granny flat right

One convenient and flexible option is setting up a 'granny flat right' or interest. Granny flat rights are either formal or informal arrangements that provide accommodation for life, or a life interest in accommodation.

By establishing a granny flat right with the assistance of a financial adviser and solicitor, you can provide much-needed support and care to your elderly relatives while allowing them to retain their independence. Importantly, when established correctly, this also allows for cash or other assets to be transferred from an Age Pension recipient to a friend or relative, potentially without any impact on their Centrelink entitlements.

1 Australian Bureau of Statistics, Gender Indicators, Australia, Jan 2013

2 Australian Bureau of Statistics, Australian Demographics Statistics, Jun 2011

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What does it look like?

A granny flat interest does not require that a physical *'granny flat' structure be built.*

A granny flat interest can take on many forms, including:

- offering an elderly person a self-contained flat, or accommodation at your home in return for a transfer of assets,
- providing a home for them to live in (a right to accommodation for life) which you own,
- legal transfer of ownership of their own home to you, in return for a life interest or right to live in the property for their lifetime
- the elderly person providing funds to construct a granny flat on your property and receiving the right to live there for life
- the elderly person providing part or the entire purchase price for a property and receiving the right to live there for life.

What does it mean for you?

Essentially, your elderly relatives provide funds or transfer the title of their home to pay you for providing the granny flat right.

It's important to remember that while granny flat arrangements typically occur between family members, it's not a requirement that the two parties be related.

Note: The transfer of the property must be registered with the relevant state or territory office of revenue. The elderly person cannot transfer only part of the title, as this means they retain partial ownership of the property and a right to occupy the property.

Is a granny flat right for you?

To find out whether establishing a granny flat right is suitable for your personal situation, speak to a financial adviser, and a solicitor. You should also seek guidance from a registered tax agent to understand any tax implications involved in the creation of a granny flat interest.

The age pension in Australia: past, present and future

By Andrew Barnett
General Manager, MLC Retirement Solutions

The age pension in Australia has changed dramatically over time. With an ageing population, it seems likely that the changes will continue into the future. If you're relying on the age pension in retirement then read on to learn more.

Past

Pre 1900

Prior to 1900, there was no age pension in Australia. In fact, there was no social security system in Australia at all. Charitable relief was provided by voluntary organisations and this was targeted at the sick and the destitute of all ages.

The first age pensions

The first age pensions emerged in Victoria and New South Wales in 1900. This culminated in the first national pension in 1909 of £1 per fortnight available to men above the age of 65.

Life expectancy was 55 years for males in 1909. As a result, most men never made it to pension age and the system was far cheaper for the government to maintain than the pension system of today.

Changes over time

Several major changes to the age pension have occurred in the last 100 years, including:

- making the pension available to women (initially only for widows)
- the introduction of means testing
- the automatic increasing of pensions with inflation.

Present

The main features of the age pension in 2014 are:

- a maximum basic rate payment of $776.60 per fortnight ($20,194.20 per year) for singles and $1,171.00 per fortnight (30,446.00 per year) for couples
- an eligibility age of 65 years of age
- an assets test and an income test that reduces the maximum basic payment for people above certain thresholds.

Life expectancies have grown significantly over the last century with life expectancy for males now at 80 and life expectancy for females now at 84[3].

The cost of running the age pension for the government was $34.70b in financial year 2011/2012 up from $16.67b in 2001/2002. This represents a more than doubling over 10 years, and a compounded annual increase of 7.6% per year. Much of that increase is due to more people reaching the eligibility age.

[3] Australian Bureau of Statistics, Jan 2013

Future

With projected lifespans continuing to increase, the government plans to increase the eligibility age to 70 years of age by 2035.

Even with this increase in the eligibility age and with the coming influx of retirees with significant superannuation balances, the Australian government forecasts that the annual cost of running the age pension will increase to $85.4b by 2035/2036.

As a result of the projected increase in costs, there have been a significant number of calls for further reforms to the current system.

Prior to releasing the 2014 federal budget, the treasurer, Joe Hockey, had called the pension system 'unsustainable' and likened not reforming the system to 'inter-generational theft'.

The main changes in the 2014 federal budget relating to the age pension were:

- increasing the eligibility age to 70 years of age by 2035 (it was previously set to increase to 67 years of age by 2023)
- reducing the future rate of growth in the pension amount
- tightening the income test to make it more difficult to receive the full age pension.

Paul Howes, the National Secretary of the Australian Workers Union, advocates including the family home in the assets test, a move that would reduce the age pension for many retirees.

What does this mean for me?

If the age pension is a significant component of your retirement plan, you should consider the possibility of future changes to the age pension.

Possible changes include:

- further increases to the eligibility age
- reductions in the basic rate of the pension in real terms
- tightening of the means test to make it more difficult to qualify for the age pension.

Educate yourself

At the end of the day, it doesn't hurt to be aware of the risks surrounding retirement so you can live comfortably in your twilight years.

Seek financial advice so you understand your position and the impact changes to the age pension could have on your retirement lifestyle.

Six financial things to organise when you retire

As you start your retirement, there are a few important things to consider and quickly put into action to make sure you can really enjoy your early retirement years.

1. Organising your Last Will and Testament

Your personal and financial position has likely changed considerably since leaving the workforce. It is important that you update your Last Will and Testament to ensure that it reflects your current position.

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Six financial things to organise when you retire (cont)

If you need to update your Will, make sure you destroy any previous versions of the document. The most recently dated Will supersedes all other documents, but it is best practice to hold only the current version.

2. Choosing a Power of Attorney

It's important to be prepared for every eventuality. Appointing an Enduring Power of Attorney means you appoint a trusted person or persons (eg: relative, friend, your lawyer) to make important personal and financial decisions on your behalf should it ever become necessary.

The person or people you choose must be selected very carefully as, at some point, they may have total control of your assets and any decisions regarding where you live and your health care. The decisions of your Attorney will be as binding as if you had made the decisions yourself.

3. Organising your Living Will

Organising your Living Will is a timely accompaniment to appointing your Power of Attorney. Your Living Will outlines the types and conditions of medical care, financial decisions and other personal decisions you would like followed should there come a time that you cannot make the decisions yourself.

4. Planning your lifestyle and reviewing your position regularly

The biggest fear for retirees is running out of money. It's important that as soon as you retire you make a long term financial plan – beyond just the next few years. Put a plan in place for every possibility. For example: are you financially prepared for living beyond age 90? Will you have used all of your retirement funds? What are your options if this happens? Do you have enough equity in your home to supplement the age pension should you ever require it?

5. Investigating discounts for insurances and other costs of living

Explore seniors or pensioners discounts for your insurances, utility bills and activities. Take advantage of reduced outgoings and enjoy having more in the bank when you need it.

6. Educating yourself on financial matters

We all have different levels of understanding and control of our finances. Some retirees manage their own finances completely, while others have input into how their retirement plan operates, and others still trust experts to manage their investments for them.

Whatever your situation, it's important to keep abreast of policy changes, market fluctuations and other important factors that could drastically impact your lifestyle. Research alternatives and seek financial advice outside of your normal arena.

Above all: enjoy yourself! You've earned your retirement and it's your opportunity to spend time doing and experiencing things that you've always dreamed of.