Robertson deRooy associates FINANCIAL SERVICES

November 2019

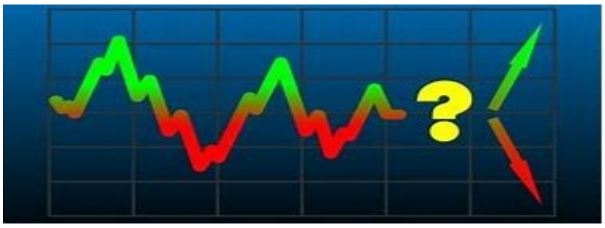
Client Briefing and Christmas Morning Tea Invitation

Friday 6 December 2019

9.15am for a 9.30am start until 11.30am

Wallis Lake Room

CLUB FORSTER



Interest rates are at historically low levels and may even go lower! The dilemma facing investors is how to improve returns in a challenging global environment (US/China Trade war, Brexit, tensions in the Middle East and social unrest in Hong Kong) and a slowing domestic economy. This dilemma raises the issue of balancing risk and reward.

We are pleased that Hugh Giddy- Senior Portfolio Manager and Head of Investment Research at Investors Mutual Limited (IML), has accepted our invitation to present at our upcoming Client Briefing.

Hugh will share IML's investment views, themes and provide insight into their share selection process and outline the influencing factors in doing so in order to achieve consistent returns over the long term. It is indeed rare to have a portfolio manager available to present so we encourage your attendance.

Following Hugh's presentation, we will have an extended morning tea to welcome in the coming festive season.

As always please feel free to bring a friend along. To assist in our planning please advise if you will attend by phoning us on 6555 6433 or emailing us at adviser@robertsonderooy.com.au

by **5pm Monday, 2 December 2019**.

We hope you can join us.

For those unable to attend we would like to wish you a very Merry Christmas and a Happy, Healthy and Prosperous 2020

Economic Snapshot

Australia

In October, the Reserve Bank cut the cash rate to a new low of 0.75%, citing interest rate trends around the world as well as spare capacity in the local economy. A range of data, including softer than expected retail sales and building approvals, supported the RBA's move. However, house prices in Sydney and Melbourne continued to improve on the back of previous rate cuts. Around 15,000 new jobs were created in September, including 26,000 full-time positions, offsetting an 11,000 decline in part-time jobs. Unemployment fell a touch to 5.2%. Markets had been expecting the unemployment rate to increase and were a little surprised by September's result. The September quarter CPI figures added to this sentiment. Core inflation ticked up, although at only 1.6% still below the bottom of the Reserve Bank's target range. These factor contributed to rates remaining on hold in November. Nevertheless, economists still expect another cut early next year.

Optimism among investors is being driven by monetary stimulus (low interest rates), signs of a recovery in the housing market, and a soft Australian Dollar, which boosts earnings from foreign operations. Working in the opposite direction are sluggish wages growth, relatively weak building and construction activity, and an uncertain global outlook.

Overseas

The "trade wars" have impacted business sentiment, which is taking its toll on manufacturing and exports sensitive sectors across several regions. However, news that the US and China would sign the so-called "Phase 1" agreement in the trade dispute contributed to improved confidence, as did the Federal Reserve cutting the cash rate by another 0.25% at their October meeting - to a range of 1.5%-1.75%. The US Fed made it clear that, unless the economy slips from here, this would be the last interest rate move for the foreseeable future. However, markets still believe the US Fed will have to cut further in 2020.

Emerging market equities performed well on the trade news and the US rate cut. These factors also helped our currency. The A$/US$ rose from around US$0.675 at the start of the month to around US$0.693 at the close. Slightly better than expected local inflation data reduced expectations of further RBA rate cuts and helped support the A$ as well.

On the political front, Elizabeth Warren is moving up the field of contenders for the Democratic Presidential nomination. The UK heads to the polls on December 12 after Parliament refused to pass Boris Johnson's Brexit deal. Political unrest continues in Hong Kong.

Pension Loan Scheme

The Pension Loan scheme, which was announced in the 2018 Federal Budget is now available, allowing those at the age pension age to apply for a loan from the government to supplement their retirement - and is effectively a reverse mortgage. The loan was previously only available to age pension recipients.

The loan is only available to people who own property in Australia and are at the age pension age, or the partner of someone who is.

The loan is paid out fortnightly and can be up to 150% of the maximum fortnightly pension amount. The property to be used as security can be the home you live in or an investment property, and can be set up as a temporary loan or as an ongoing form of finance. Any payments received under the scheme do not affect existing age pension entitlements.

Repayments can be made at any time or the debt can be left, including the accrued interest (current rate 5.25% compounding fortnightly), to be recovered upon sale or from the person's estate.
Compounding interest is charged on the balance of the loan and calculated on a fortnightly basis. The total amount you can take out depends on your age, your partner's age and the amount of equity you have in your property.

Importantly, the fortnightly payments are taken from the equity in your home and will reduce the amount of money you get from your home when sold. The scheme allows you to remain in your home, as an alternative to back-trading (with its associated costs – agents and stamp duty on new (purchase) to generate capital.

If you take out a pension loan you will also need to talk to one of the government's financial information service officers who can help you make an informed decision. This service is free.

There are a series of fees included in setting up the loan which need to be paid by the person taking out the loan. For example your property will need to be registered with the Land Titles Office which will come at a cost.

Loan payments are not taxed.

Downsizing your home - Enhancing Retirement Outcomes

There are many reasons to downsize from your existing home. These may include:

- Moving into something more manageable;
- Moving to a retirement village;
- Moving into one of your children's homes under a granny flat arrangement;

OR

- Simply to generate some additional retirement capital to do the things you had always planned but don't have the money to do at present.

Aspects to consider in doing so should include real estate agent commission payable, possible stamp duty if purchasing another freehold or strata (unit, villa or townhouse), moving costs, the emotional aspects of moving from a home you may have lived in for a very long time, and the impact on Centrelink Age Pension as the surplus funds from the changeover will become assessable under the Centrelink Assets and Income Tests. In some cases, generating additional assessable assets will see the Centrelink Age Pension entitlements cancelled as the upper Asset Test thresholds will be exceeded – see current Asset Test thresholds listed on the final page of this newsletter.

The 2017 Federal Budget contained an announcement allowing those undertaking downsizing to contribute up to $300,000 each into super provided certain conditions were met. The measure subsequently passed the Senate and commenced 1 July 2018.

Whilst the asset value will be counted by Centrelink/DVA for recipients of benefits, deriving a regular payment from a super funded pension is completely tax-free. Whilst the contribution is assessed by Centrelink under both the Asset and Income Tests, how the proceeds are invested is important as the aim should be to both replace the age pension reduction as well as trying to best maintain investment value over time- not withstanding the possibility of the occasional negative return.

Key criteria required to make downsizer contributions into super include:

- At the time of contribution, the individual is 65 or over (there is no upper age limit). If one member of the couple is under age 65, funds can still be contributed to super however will be subject to contribution cap rules;
- The need to have owned the home located in Australia for at least 10 years (in the case of a couple it does not matter if the house was held in a spouse's name alone);
- The total amount of the downsizer contribution does not exceed the capital proceeds. For example, if a property sold for $540,000, that would be the limit able to be lodged into superannuation between a couple- and does not need to be in equal amounts provided it does not exceed $300,000 for an individual;
- The contribution is made within 90 days after change of ownership (usually the settlement date);
- The contribution is made using the approved form.

Importantly the downsizer contributions can be made without impacting the $1.6M pension cap and can also be used to provide a better outcome in terms of the taxability of existing super income streams held.

If you are considering downsizing, we will be happy to discuss aspects, considerations, implications and outcomes with you.

Pensioner Concession Card (PCC)- what's available?

A Pensioner Concession Card provides eligible cardholders access to Australian Government health concessions and a range of assistance with the general cost of living through reduced costs and services- including:

Reduced Cost Medicines - Pensioner Concession cardholders will only have to pay $6.50 for those prescribed medicines listed in the Pharmaceutical Benefits Scheme.

Bulk Billing for Doctor's Appointments—Many health professionals will bulk bill if you have the Pensioner Concession Card, but this is dependent upon the individual doctor.

Car Registration - Pensioner Concession cardholders have the benefit of free car registration. Registration can be automatically renewed once you have obtained your Pink Slip (if required) and renewed your CTP insurance.

Driver's License - This is free to Pensioner Concession cardholders. Driving tests and Riding Skills tests are also free.

Hearing Services - Assistance with some hearing services through the Office of Hearing Services.

Council Rates - Most Councils offer a reduction for Pensioner Concession cardholders. $250 off ordinary rates & charges for domestic waste management services.

Water Rates - The Pensioner Water Rebate ($87.50 off annual water rates) is available for all eligible pensioners in NSW.

Electricity & Gas - The Pensioner Energy Rebate covers both electricity and gas bills with the rebate being taken off your electricity bill. Contact your supplier to obtain the rebate.

Public Transport - Reduced fares on buses, ferries and trains with a Gold Senior or Pensioner Opal Card. Some free travel on NSW Trainlink and Great Southern Rail Service. 4 Pensioner Travel Vouchers (ie) 2 return or 4 single trips

Australia Post - Apply for a free MyPost Concession account and you will receive a booklet of 5 free concession stamps upon signing up, the ability to purchase 50 stamps at reduced rate per year plus a discount on Mail Redirection and Mail Hold.

Pet Registration - Pensioner Concession cardholders can register their cats or dogs for free with some councils. Mid Coast council charges a discounted fee of $25 if your dog/cat has been de-sexed.

National Parks - Cardholders receive free entry into all NSW national parks and reserves.

Fishing License - Cardholders are exempt from paying the NSW recreational fishing fee. You will need to show your Pensioner Concession Card whilst fishing to be exempt.

All states, councils and service providers offer different discounts and rebates.

Centrelink Assets Test Thresholds

The following table details the current Centrelink Assets Test thresholds and reflects the Indexation which occurred on 20 September 2019:

If you are	Assets Test Threshold for Full Pension	Assets Test Threshold for Part Pension
Single, homeowner	$263,250	$574,500
Single, non-homeowner	$473,750	$785,000
Couple, homeowner	$394,500	$863,500
Couple, non-homeowner	$605,000	$1,074,000
Payment Rates	**Fortnightly**	
Full Pension- Single	$933.40	
Full Pension- Member of couple	$703.50	
Rent Assistance- Single	$138.00	
Rent Assistance- Couple	$130.00	
Carer Allowance	$129.80	
DVA War Widows Pension	$951.70	
DVA Income Support Supplement (ceiling rate)	$278.50	

<u>Thresholds are higher for couples separated by illness (such as when one or both move into Aged Care)</u>

Entitlements are calculated under both the Assets Test and the Income Test - with the rate payable being the LOWER of the two.

Ways to reduce assessable assets to increase entitlements include:

- Valuing assessable assets such as your car/s, caravan, boat and home contents to their "garage sale" value rather than the insured value or what you think they are worth;
- Gifting up to $10,000 per annum (to a maximum of $30,000 over a five year period);
- Spending on home improvements (as the principal place of residence is assets test exempt)- however take care not to over capitalise;
- Buying Lifetime Annuity that receives concessional Income and Assets Test Treatment;
- Purchase of a Funeral Bond– current maximum allowable amount is $13,250 each;
- Travel

*** Care should be taken to not simply spend to gain a higher pension. Please discuss this with your financial planner before making any moves.***

We trust that you have found our Newsletter informative. We welcome any questions you may have regarding the content or would like see anything of financial interest covered in future editions, please call or email us.

*For further information about our team as well as the latest news, market updates, financial calculators and previous newsletters visit our website at **www.robertsonderooy.com.au.***