Robertson deRooy associates FINANCIAL SERVICES

November 2018

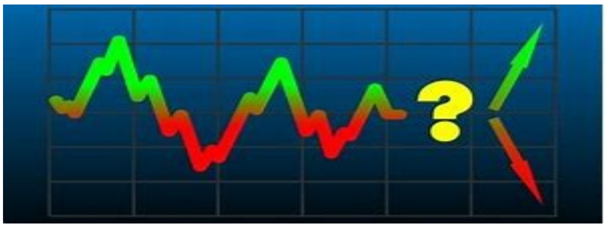
Client Briefing and Christmas Morning Tea Invitation

Friday 7 December 2018

9.15am until 11.30am

Wallis Lake Room

CLUB FORSTER



With heightened volatility in domestic and international share markets of late, it is timely to have Colonial First State present their views on the current situation and the likely headwinds and impacts on investments as we move into 2019.

The vast majority of Australians know that having a Will is important, yet less than half actually have a Will!

To discuss Wills as well as the provision of Powers of Attorney, Enduring Guardianship and Advance Care Directives, local solicitor– John Vaughan (Accredited Specialist Elder Law) has kindly accepted our invitation to detail considerations and share some horror stories and consequences of ignoring the importance of Estate Planning.

Our briefing will culminate with 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, 3 December 2018**.

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 2019

Economic Snapshot

October saw the most significant pull-back in global equity markets since 2015. A wide range of issues contributed to this, including the escalation in the US/China “trade war”, the Italy/European Union (EU) budget dispute, slower growth in China and disappointing earnings from some US tech stocks. But the most important cause was higher bond yields in the US on the back of further strong economic data, combined with statements from Fed Chair Powell that the US central bank remains on course to keep tightening monetary policy (increasing interest rates).

Although the Australian equity market recovered some ground towards the end of the month, the ASX200 still posted its worst monthly return of -6.10% since August 2015- after falling as much as 8.7% before staging a recovery of sorts toward months end. In addition to the factors outlined above, the fall-out from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry also impacted share prices in the banks and AMP. As is often the case after falls like this, some investors see opportunities to buy, while others remain cautious, believing the risks have not yet passed. Further US monetary tightening may pose a threat to equities for a while.

The local economy remains in reasonable shape, with business conditions improving and the unemployment rate falling to 5%. However, some key measures of spending are slowing, underemployment remains high and inflation is still just below the Reserve Bank’s target range. In light of this, it is not surprising the Reserve Bank has kept the cash rate unchanged at 1.5%- for the 25th consecutive month. Unlike in the US, there is no pressing need for the Reserve Bank to tighten policy, which implies further weakness in the A$/US$ rate is to be expected.

The US Federal Reserve has made clear it wants to lift the US cash rate from 2.15% now to 3.4% by 2020, while at the same time using quantitative tightening to drain excess liquidity from the economy. Other central banks (but not our Reserve Bank) will be following suit as we move into 2019, but the US will be at the forefront of this gradual tightening of global liquidity. This is because the US economy is running faster than everyone else and must slow down to contain the build-up of inflationary pressures.

However, the markets do not yet believe this story, while they assume that Fed Chair Powell will follow the example of his predecessors and soften the stance of monetary policy when equity markets have sharp falls. All indications are that this is not a good assumption. Powell has inherited an economy in much better shape than his predecessors and has shown no signs of being swayed by market volatility.

In other news:

- The unemployment rate in the US fell to 3.7%, its lowest level since 1969; other labour market indicators suggest the unemployment rate could fall even further; there has also been a meaningful pickup in growth of wages - all this lends weight to the Fed's plans;

- There were further signs of weakness in the Australian property sector, with weaker than expected building approvals and more evidence of falling house prices;

- The dispute between the EU and the Italian government over the latter's proposed budget program continued to put pressure on Italian markets relative to their peers;

- US politics became even more rancorous in the approach to the 6 November mid-term elections. Whilst the Republicans will retain control of the Senate, they lost control of the House of Representatives, which may lead to policy gridlock. Overall Trump's ability to push through legislation may be limited and may also see more investigation into his affairs.

- There were signs the Chinese economy is still slowing down; the authorities announced further measures to mitigate this.

Finally, US/China trade tensions waxed and waned through the month, with markets taking encouragement from any signs of possible progress. However, this is part of a bigger pushback by the West against China's economic and military expansion which is now increasingly being seen as too aggressive. The West is seeking to redefine the developing relationship with China, and this too will lead to periodic bouts of market volatility for some time yet.

This Economic Snapshot is not intended to be comprehensive and should not be relied upon as such. We have not taken into account the individual objectives or circumstances of any person. Legal, financial and other professional advice should be sought prior to applying the information contained in this document.

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 the children's home 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 $6.40 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 Licence- 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 $24 if your dog/cat has been de-sexed.

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

Fishing Licence- 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 2018:

If your	Asset Test Threshold for Full Pension	Asset Test Threshold for Part Pension
Single- homeowner	$258,500	$564,000
Single, non-homeowner	$465,500	$771,000
Couple, homeowner	$387,500	$848,000
Couple, non-homeowner	$594,500	$1,055,000
Payment Rates	**Fortnightly**	
Full Pension- Single	$916.30	
Full Pension- Member of couple	$690.70	
Rent Assistance- Single	$121.20	
Rent Assistance- Couple	$196.20	
Carer Allowance	$127.10	
DVA War Widows Pension	$922.50	
DVA Income Support Supplement (ceiling rate)	$272.60	

Thresholds are higher for those separated by illness

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 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;
- Purchase of a Funeral Bond– current maximum allowable amount is $13,000 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.***