New Year's countdown

ALERT: Act now to make the most of retirement and your time in the sun.

Centrelink income tests for retirees kick in on January 1. There's still time to prepare.

NOEL WHITTAKER

THE Centrelink treatment of account-based pension income streams (ABP) will change on January 1, 2015, as a result of measures introduced by the previous government.

At first glance the changes appear complex, which is why there has been a mountain of inquiries from retirees and potential retirees who feel they will be adversely affected.

Currently, the income from an ABP is calculated using a formula that takes into account the life expectancy of the recipient.

The rationale is that part of the income stream is simply your own money being returned to you, therefore should not be treated as income.

For example, if a 65-year-old female single pensioner had $200,000 in super, and was drawing an ABP of $10,000 a year, $9250 would be exempt from Centrelink. This would leave only $750 a year to be assessed under the income test.

Under the proposed rules, the whole $200,000 in super would be subject to deeming and assumed to be earning $6280 a year. This would cause her pension to drop by about $20 a week.

The old rules will be grandfathered. This means you will be unaffected if, at January 1, 2015, you have an ABP in place *and* are receiving income support payments from Centrelink. An income support payment includes age and service pension, disability pension, carer payment and Newstart allowance.

As always, the devil is in the detail. Grandfathering will not apply if you change income stream providers after January 1, 2015, or cease to receive an income support payment, or start an ABP prior to January 1, 2015, but are not yet receiving an income support payment.

The interplay between the assets test and the income test means retirees with relatively high assets will be unaffected. Keep in mind that the changes apply to income test affected pensioners only.

Think of a couple with $400,000 in financial assets such as superannuation shares and cash, and $50,000 in personal items such as cars and furniture.

Their financial assets would be deemed to be earning $493 a fortnight, which would make them eligible under the income test for a pension of $583 each a fortnight. However, under the assets test, the pension would be about $510 each a fortnight.

Here is a simple way to think about it. If you are a single homeowner, you are almost certainly going to be assessed under the assets test if your assessable assets are over $253,000. For a homeowner couple, the number is $321,000.

There have been many emails from retirees who have not reached pension age, and are considering starting an ABP prior to January to bring themselves under the grandfathering rules.

This could be a costly mistake because money in superannuation is not assessed by Centrelink until the holder reaches pensionable age, and you won't be eligible for grandfathering if you are not receiving an income support payment on January 1. This may be because you have not reached pensionable age, or because you have too much income or assets to qualify for it.

Self-funded retirees in residential aged care at January 1, 2015, who are in receipt of an ABP may see their aged care fees go up. This is because a resident's ABP cannot meet the grandfathering provisions if they are not in receipt of an income support payment as at January 1, 2015.

Yes, it's complicated stuff, and I urge you to take advice sooner rather than later. Depending on your own situation, there may be strategies such as restarting an ABP to lock in a higher deductible amount if the account balance has risen significantly since the pension started, amalgamating additional super benefits and restructuring beneficiary nominations that improve your situation.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email noelwhit@gmail.com.

Q My wife and I are 76 and 85, retired on a part-pension, own our home valued at $460,000, and have a mortgage-free investment property worth $450,000, which is currently rented. We are thinking of selling the investment property to have funds available to buy a smaller home within the next two years. Where could we hold the sale proceeds until we need them, while drawing 4 per cent to cover living expenses? What expenses would we incur in selling and buying?

A For such a short time, the only practical option is a bank deposit. Just make sure you find out what capital gains tax, if any, you will pay before you sign a sales contract.

Q Why is the Qantas Frequent Flyer Program advertised as being so profitable, and how is the profit achieved?

A The institutions that issue points, such as credit card providers, buy the points from Qantas. This produces income to Qantas. The benefit is that many points sold in this way are never used, or simply expire.

New retail and wholesale definitions need careful scrutiny

By **JOHN COLLETT**

DIY super fund trustees could be exposed to risky and complex investments by advisers and lose the protection of financial advice laws after clarification of the definition of "retail" and "wholesale" investors by the regulator.

There has been confusion about the division for years. Mainstream financial advisers such as members of the Financial Planning Association treat all of their clients as retail investors. Retail investors receive all of the disclosures and protections provided under the law. Wholesale investors are considered to be financially savvy, without the need for the same level of disclosure and protections.

For example, a wholesale investor does not have to be provided with a statement of advice from the adviser, which, among other things, discloses any payments or benefits the adviser and their employer receives.

And many of the protections under the law do not apply. For example, the wholesale client loses access to complaints resolution schemes. For non-super advice, one of the definitions of a wholesale investor is that they have assets of $2.5 million or can show income of at least $250,000 for the previous two years.

The Australian Securities and Investments Commission (ASIC) used to interpret the law on who could be classified as a wholesale investor with regards to superannuation as the definition of a "professional" investor, which is at least $10 million in the self-managed super fund. Many in the financial services industry thought that ASIC's interpretation was wrong, but it has always been unclear. ASIC tried to clarify things last week when it said that the $2.5 million or $250,000 rule can be applied to DIY super fund trustees.

While there has been no change in the law, what has changed is how ASIC will enforce the law. There can be good reasons for accessing investments as a wholesale investor.

DIY fund trustees can access investments such as sharemarket floats and bond issues that are only available to wholesale investors, often at lower costs than retail investments because the compliance costs are lower. To be classified as a wholesale investor, the investor's financial circumstances have to certified by a qualified accountant.

However, under the test it looks as if the $2.5 million can include the family home, other investments such as a share portfolio and superannuation assets. Many with their own funds are savvy investors, but there is potential for problems. Some wholesale investments are so complex they cannot be understood by ordinary investors.

These investments, some of which include hedge funds, strategies that use financial derivatives, include leverage and other financially engineered products, can be suitable for large superannuation funds able to independently evaluate the investments.

Consolidated debt obligations (CDOs), for example, were sold to local government councils without the level of disclosures that would have been made to retail investors. Complex investments like these and other financially engineered products destroyed wealth during the global financial crisis.

DIY fund trustees have to think whether the benefits of investing in wholesale investments outweigh the loss of protections.