Fight for a fair go pays off

Challenger took on an unfair government aged care ruling – and won.

FIGHT: Challenger had to threaten legal action to protect its existing elderly customers' rights.

THANKS to some decisive action by Challenger some of our most vulnerable senior citizens have been spared a traumatic Christmas.

The complex tale started two years ago when the government announced that it was considering changing the method of calculating aged care facility fees to a level that more reflected the actual costs of operation.

There is nothing unusual about this – the rules regarding superannuation, age pensions and aged care fees change continually.

And so it came to pass that in July 2012 Challenger introduced a new product styled Care Annuity. It became extremely popular as the following case study shows:

Rita, aged 85, a non-homeowner, enters care on July 1, 2014.

After paying a Refundable Accommodation Deposit of $300,000 she has $300,000 in her bank account and no other assets.

She invests $260,000 in a Care Annuity which pays her $9048 a year for life and will refund the entire $260,000 to her estate when she dies.

As a result of this investment her aged care fees are reduced by $1409 in the first year, and her age pension increases by $2810 in the first year.

The combination of reduced aged care fees and increased pension means she is $81 a week better off in year one.

This was a unique product and Challenger took the precaution of having the product assessed by the Department of Social Services to confirm that the benefits it was promoting were acceptable.

In March 2012 confirmation of how the product would be treated was given by the department.

It was all plain sailing for the next two years.

Then in November 2014 the Department of Social Services had a change of heart and advised that it would assess the Care Annuity on a different basis from January 2015.

This would have negated most of its benefits. Again, there is nothing new about this – governments change the rules all the time.

But here's the rub – the department announced that its change in assessment would not be grandfathered and all the benefits that had come with the Care Annuity for the past two years would be taken away.

Imagine the outcry.

The typical purchaser of one of these annuities is an elderly woman in an aged care facility – the family would have to tell her that she could be $80 a week or more worse off because of retrospective rules passed by the present government.

It's hard to imagine anything more heartless at Christmas time.

Challenger, being a listed company, immediately advised the stock exchange of the government's backflip and suspended sales of the product until the position became clearer.

The company also instigated proceedings in the Federal Court against the department.

Last week Challenger and the department came to a resolution where existing customers' rights were protected.

The company announced it would no longer market the Care Annuity in its present form, but is working constructively with the department to produce a product which would be acceptable and would benefit customers.

There are some serious issues here.

The first is retrospectivity, which is contrary to fundamental legal principles.

The second is that the company had to threaten legal action against a government department to achieve an outcome which any reasonable person would regard as fair.

As our population ages governments will face increasing pressure to balance their budgets – this means change will be inevitable.

Most of us can cope with change – what we can't handle are laws which, passed today, can make actions we took yesterday illegal.

Here's to a healthy and prosperous 2015.

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

Five steps to getting started in shares

By **SCOTT PHILLIPS**

WHETHER you're a seasoned investor or you've never bought a single share in your life, it was hard not to get caught up in the excitement of the Medibank IPO.

Yes, the float might have been over-hyped, and hopes of huge first-day profits were sadly dashed, but even people who'd never invested in shares were paying attention.

Investing in shares can be a wonderful way to build a nest egg for your retirement. You're taking a part-ownership in real businesses, whose directors and managers spend their time trying to make you more money – and who often give you a six-monthly dividend payment for the privilege.

How good can it be? Consider a hypothetical investment in the companies that make up the All Ordinaries index. A sum of $10,000 invested in 1984 was worth a cool $278,000 in 2014, even if you never added another dollar. That's a very nice return for in effect doing nothing but waiting. Adding just a small amount each month would have seen you with a very nice seven-figure sum. How many other "do nothing" strategies offer you a million-dollar pay day?

If I've got your attention – and I hope I have – here's how to get started:

NEST EGG: Investing in shares can be profitable, if done right.

Start reading

Investing isn't risk-free. Even the best businesses stumble sometimes. But there's a lot you can do to put the odds in your favour. The first is to read everything you can find. Read the finance section of this newspaper. Take an interest in the companies around you. Focus not on the "finance" part, but on the "business" part. Really understanding how businesses work will give you a head start over a surprisingly large number of investors.

Choose a broker

If you want to buy and sell shares, you need someone to do that on your behalf. The best approach for many people is to find a low-cost discount online stockbroker such as CommSec, nabtrade, CMC, Bell Direct and the like. Look for a combination of a reasonable price (not necessarily the lowest), functional website and great customer service.

Settle on what you want to buy

There is no shortage of companies listed on the ASX. Almost 2000 at last count. The sheer number, and the investing jargon, can be off-putting. But if you've been reading and following the business news for a while, you'll have a good chance of narrowing down your list. Here's a start: avoid miners, avoid companies without strong brands and avoid those companies that can't increase prices.

Make your first trade

Your chosen broker's website can seem a little scary at first. The process of buying and selling can be daunting. But once you've done it a couple of times, you'll be feeling like a pro. If you've chosen a broker based on website functionality, you'll almost certainly be able to find an easy-to-follow explanation of how to trade.

Repeat

But not too often. If you're saving money regularly – and you should be – you'll soon be ready to make your second (and third and fourth) trade. You'll want to make sure you diversify by investing in different companies in different industries. Diversification is important so you're not exposed to undue risk, but it's also important not to trade too often. Buy quality businesses with the aim of holding them for a long time. Don't give up your all-too-hard-won gains in tax and brokerage costs.

Foolish takeaway

I'm not sure there's been a wealth-building machine ever invented that's better than the sharemarket. It has been responsible for countless fortunes, and almost certainly countless more in the future. It's not without risk, so make sure you go in with your eyes open, but sensible investing can be very profitable indeed.

Scott Phillips is a Motley Fool investment adviser