Retirees face balancing act

Budget changes mean pensioners with substantial assets are hit the hardest.

DESPITE the rumours, superannuation and negative gearing were left untouched in last Tuesday's Budget. However, as foreshadowed in this column last month, the government announced a change in attitude to wealthy pensioners by changing the asset test taper rate.

By increasing the level at which the pension starts to reduce due to assets, and by steepening the taper rate itself, they managed to increase the pension for many less affluent recipients while reducing it – or even removing it – from the wealthy ones.

For a single home owner, the base will rise from $202,000 to $250,000 and for a home owner couple it will rise from $286,500 to $375,000. The cut-off points will be around $535,000 for single home owners, and $810,000 for home owner couples.

These are approximate numbers, as the changes will not take effect until 2017, and the thresholds will be increased on July 1 each year by the Consumer Price Index (CPI).

NOEL WHITTAKER

This will hit retirees with substantial assets hardest. An age pensioner couple with $750,000 of assessable assets should currently be receiving $602 a fortnight pension.

Under the new rules, this would drop by $430 a fortnight, or $11,180 a year. That's going to have a big impact on their budget.

Many people make the mistake of valuing non-investment assets at replacement value – they should be valued at secondhand value. This would put a figure of $5000 on most people's furniture. The new taper figures mean that every $10,000 of assessable assets has an effect of $780 a year on the pension. Overvaluing your car and furniture by $50,000 will cost you $3900 a year in pension, whereas spending $100,000 on travel and house renovations (thus reducing your assets) will increase your pension by $7800 a year indexed for life. That's equivalent to a capital-guaranteed return of 7.8 per cent per annum on your money.

You can also reduce your assets by gifting part of your money away, but seek advice before you do so. The Centrelink rules allow gifts of only $10,000 in a financial year, with a maximum of $30,000 over five years. Using these rules a would-be pensioner could gift away $10,000 before June 30 and $10,000 just after it, and so reduce their assessable assets by $20,000.

A couple could also invest $12,000 each in funeral bonds, which are exempt under the assets test.

I was discussing the changes on radio recently and a listener pointed out that under the proposed rules, a person with $900,000 in assets would get no pension whatsoever, and if their money was in the bank earning 3 per cent, the income generated would be just $27,000 a year. They contrasted this with the situation of a full pensioner with minimal assets, who would be getting $34,000 a year indexed.

It's a valid point, but as I said to the listener, the person with $900,000 would be taking a very high risk if they kept their money in cash. They should have a diversified portfolio, which hopefully should be giving them at least 6 per cent.

Yes, I am well aware that many retirees are risk-averse – this is why I have been urging my readers for years to get acquainted with growth assets like shares at as early an age as possible. Doing this means they won't panic and sell out when the market has one of its normal downturns.

One last piece of advice: be wary of spending unnecessary money just to get a higher pension. The fact that the government has been forced to back away from the hard decisions in the Budget is a clear indication that it may be many years before Australia's finances are restored. Further cuts to welfare must be expected.

Q My husband and I are both 50 years old, and a financial adviser suggested we change our principal-and-interest home loan to an interest-only loan so we can feed funds into superannuation. Once we retire, the plan is to pay the mortgage out with the superannuation. Our home is worth approximately $900,000 and we have a $250,000 mortgage. We have approximately $140,000 super between the two of us, and have teenage sons, so our expenses will be high for the next 10 years. What do you think of this strategy?

A That is very good advice because money salary-sacrificed to super loses just 15 per cent whereas money taken in hand would normally lose at least 32.5 per cent. Also, because of your age you have little fear of the laws changing to restrict the amount that can be withdrawn tax-free once you reach 60.

Q I am 81 and my wife is 78. Our wills stipulate that if one of us should die, $50,000 goes to our daughter, $50,000 goes to our son, and the remainder to the surviving partner. Is there any tax payable on these amounts? We are both age pensioners.

A If the amount bequeathed is in cash, there would be no tax payable by the beneficiaries. But if money was left to them in the form of assets, such as shares, there could be capital gains tax to pay if these assets carried a capital gains tax liability and they sold them. However, in that case, there would be no CGT triggered until the assets were actually disposed of. May I congratulate you on clever estate planning, because too many pensioners in your situation leave all their assets to each other and find themselves with a severe reduction in their pension when one spouse dies and the remaining spouse is assessed under the single assets and income test.

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 decisions. Email noelwhit@gmail.com.

Banks widen deposit-loan interest gap as rates drop

By **CLANCY YEATES**

SAVERS looking for a competitive interest rate should be willing to commit to a long-term relationship as banks try to preserve margins.

New figures show major banks have this month cut interest rates on a range of savings accounts by more than their home loan interest rates.

But at the same time, several lenders have also increased certain term deposit interest rates, and some "bonus" rates for people who keep their money in the same account and make regular contributions.

Two weeks after the RBA's May rate cut, figures from Finder.com.au show major banks including Westpac, National Australia Bank, Commonwealth Bank, Macquarie Bank and AMP have reduced various at call deposit rates by 0.25 percentage points.

This is a bigger cut than all of these banks gave their home loan customers this month, and analysts say the trend towards deeper cuts in deposits than loans is a response to declining profit margins.

Bell Potter analyst T.S. Lim said this month's round of profit results from Westpac, National Australia Bank and ANZ Bank had shown lower profitability from deposits compared with previous halves.

"The spread on deposits has actually fallen by about 25 to 30 basis points in the last six months, which is very comparable to the cash rate decline," Mr Lim said.

"That's why the banks are protecting this part of the book," he said.

When interest rates fall, bank profit margins get crunched because a bank's interest-earning assets, loans, are greater than its liabilities, or deposits.

If banks reduce rates on their deposits and loans by the same amount, the overall result is lower profit margins, so banks' latest moves are an attempt to offset this.

While home loan interest rate decisions attract more attention, Finder.com.au spokeswoman Michelle Hutchison pointed out that most households do not have a mortgage.

"There are about 3 million households with a mortgage, out of about 8 million.

"The remaining households are essentially savers – they either have paid off their home or they are renting," she said.

Finder.com.au's figures, provided to Fairfax Media, show the group of banks that has this month cut variable savings rates by more than their home loan rates includes: CBA and its Bankwest business; Westpac, including St George, BankSA and Bank of Melbourne; NAB; Macquarie; and AMP.

ANZ Bank was the only major bank that this month reduced its home loan rate by the same amount as the RBA, and its savings accounts also fell by this margin, 0.25 percentage points.

But while these variable rates have been clipped, many banks have also followed the CBA's tactic of increasing certain term deposit interest rates.

CBA raised its eight-month term deposit, Westpac raised a nine-month rate, Bankwest raised rates over the four- and 10-month terms, NAB raised its 10-month term, and Macquarie has raised one- and six-month terms.

CBA also increased the bonus rate that it pays to customers who deposit more than $200 a month into one of its products, and other banks have made similar moves.

While banks argue they are doing this because they are considering customers' needs, Mr Lim said these types of funding are also handy for banks in meeting rules that require them to have stable source of funding.

"It's a valuable source of funding," Mr Lim said.

Ms Hutchison also pointed out that term deposit rates are less likely to follow RBA decisions, as they are more influenced by money market movements.

"There is no real correlation between Reserve Bank decisions and term deposit increases," Ms Hutchison said.

Ms Hutchison said the increases in term deposit rates were welcome, but consumers should consider the different features of these products, including the requirement to lock up money for several months in order to earn interest.