

CENTRELINK WORKSHOP

MAY – 2016

WARNING – GENERAL INFORMATION ONLY

WWW.CIFP.COM.AU

WORKSHOP AGENDA

1. **INTRODUCTION:** CIFP HISTORY
2. **EXPERIENCE:** CIFP
3. **COSTS:** FEES FOR SERVICES PROVIDED
4. **CIFP SERVICES:** CENTRELINK CORESPONDENCE NOMINEES
5. **SUPER/PENSIONS:** TAX BENEFITS, RESTRICTIONS, SMSF vs WRAPS
6. **CENTRELINK:** CURRENT RULES vs NEW RULES IN 2017
www.youtube.com/watch?v=GC2g8CToKps&list=PLPhHSZWjt-K4z3JVYxWMX2BNv-sJ3I-rF
7. **CASE STUDIES:** STRATEGIES TO MAINTAIN YOUR PENSION

CENTRE IN FINANCE (CIFP)

- **Commenced:** 1984 with own ASIC Licence

- **Benefits of Advice:**
 - **Strategic:** Investment & Legislative management
 - **Behavioural:** Calm & informed decisions
 - **Value Add:** Ongoing advice can add additional value of 3% pa

- **Value Add Strategies (CIFP):**
 - **2003 – 2007:** Maximum exposure to growth (based on risk profile)
 - **2007 – 2008:** Transfer 50/70% to cash (index 6,000 points)
 - **2009 – 2010:** Transfer 30/50% to growth (index 3,500 points)
 - **2011 – 2012:** Locked in Term Deposit rates for 5 years at 5% pa
 - **2013 – 2015:** Selection of active fund managers with income focus

THE CFP TEAM

* **BILL ALATERAS: Director – Senior Financial Planner (32 years)**

Degree in Accounting/Finance (Melbourne), Tax/Finance Lecturer

* **VICKI ALATERAS: Director – Financial Planner (22 years)**

Degree in Social Science (Monash), Diploma of Financial Planning

* **ROBERT FARCHIONE: Financial Planner (16 years)**

Diploma of Financial Planning

* **NICOLE HADJIGEORGIOU: Financial Planner (6 years) Para Planner (10 years)**

Degree in Applied Science (Deakin), Advanced Diploma of Financial Planning

* **HELEN PESCOS: Receptionist**

* **MEGAN ASHTON: Administrator**

CIFP ONGOING SERVICES

- **LMDA Services:**
 1. Re-invest term deposits upon maturity (up to 5 years)
 2. Re-balance with strategic ongoing management
 3. Review model portfolio & fund managers
- **Six-monthly portfolio review & newsletters:**
 1. Review your asset allocation with your risk profile
 2. Prepare a Record of Advice for any changes
 3. Provide a 6-monthly newsletter & updates on our website
- **Review meetings & interviews:**
 1. Meet & review objectives, strategies & updated legislation
 2. Centrelink support & nominee arrangements
 3. Assistance with Imputation Credit refunds from the ATO
 4. Estate Planning support/assistance. Anti detriment payments (to 30/06/17)

CIFP SERVICES & FEES

CIFP charges a Service Fee with no commissions / bonuses.

	<u>AVERAGE FEES</u>	<u>CIFP FEES</u>
– Consultation & Interview Charges	Nil	Nil
– Preparation of Financial Plan (SOA)	1.0% - 2.0%	Nil
– Establishment Charges	1.0% - 2.0%	Nil
– Total Annual Charges from (Tax Deductible?)	1.5% - 2.5% pa	1.0% pa

(Wrap Fees, Advisor Service Fees & Fund Manager Fees)

(CIFP negotiated a wrap fee reduction of up to 70% for our clients)

<u>Account Balance</u>	<u>Normal Fees</u>	<u>CIFP Fees</u>	<u>CIFP Savings</u>	<u>Fee Reduction</u>
\$100,000	\$ 780 pa	\$ 250 pa	\$ 530 pa	70%
\$500,000	\$2,725 pa	\$1,250 pa	\$1,475 pa	50%

SUPERANNUATION

1. INDUSTRY & EMPLOYER FUNDS:

- Low cost with no ongoing service – (average cost 1% pa) – extra cost for advice
- High costs for low account balances (fixed annual fees on average \$ 100 pa)
- Limited investment options & flexibility - Australian Super, Care Super, Hesta Super

2. RETAIL & MASTER FUNDS:

- Varying costs with ongoing service – (average cost 2% pa)
- Retail investment options & flexibility – CFS, AMP, MLC, BT, OnePath

3. WRAP WHOLESAL SERVICE SERVICES:

- Varying costs with ongoing service – (average cost 1% - 2% pa)
- Wholesale investment options & flexibility – FirstWrap, MLC Wrap, BT Wrap
- Direct investment options – Shares on the ASX 300

4. SELF MANAGED SUPER FUNDS (SMSFs):

- Varying costs with/without ongoing service – (average cost 1% - 2% pa)
- Investment options & flexibility – Wrap services may be used by SMSF
- Direct investment options – Shares, listed, unlisted, direct investment property.

SUPER BENEFITS

1. ACCUMULATION PHASE:

- Tax deductible contributions (20% - 30% immediate tax benefit on income over \$ 37K)
- Co-contribution benefit of up to 50% ATO refund & Spouse Rebate of 18%
- Tax on earnings is 15% pa plus 10% on capital gains (avoid CGT by transfer to Pension)
- Salary Sacrifice can provide the following additional boost to wealth: (assume 5% return)

Years of Salary Sacrifice

5 years

10 years

20 years

30 years

Extra Wealth Accumulation

35%

37%

45%

50%

2. PENSION PHASE:

- No tax on earnings or capital growth with 100% refund of Imputation Credits
- Total earnings are on average 2% pa higher than accumulation phase
- Income from pension is tax free from 60 years of age (\$1,600,000 – 01/07/2017)
- Income may be tax free or taxable with a 15% tax offset between age 55 to 59.

3. RESTRICTIONS:

- Age, employment status between age 65 to 75 (30/06/17), preservation age for access
- Contribution limits both concessional & non-concessional. (Tax deductible & tax free)

CENTRELINK - ASSETS

1. AGE PENSION	<u>Date of Birth from</u>	<u>Pension Age</u>
QUALIFYING AGE 65 OR:	01/07/1952 – 31/12/1953	65.5
	01/01/1954 – 30/06/1955	66
	01/07/1955 – 31/12/1956	66.5
	01/01/1957 & onwards	67
2. HOMEOWNERS ASSET TEST:	<u>March 2016</u>	<u>January 2017</u>
– Single Pensioner:	\$ 205,500 to \$ 788,250	\$ 250,000 to \$ 549,000
– Couple Pensioners:	\$ 291,500 to \$1,170,000	\$ 375,000 to \$ 826,000
– Separated by Illness:	\$ 291,500 to \$1,447,500	\$ 375,000 to \$1,110,000
3. NON-HOMEOWNERS ASSET TEST:		
– Single Pensioner:	\$ 354,500 to \$ 937,250	\$ 450,000 to \$ 749,000
– Couple Pensioners:	\$ 440,500 to \$1,319,000	\$ 575,000 to \$1,026,000
– Separated by Illness:	\$ 440,500 to \$1,598,500	\$ 575,000 to \$1,310,000
4. ASSET TEST EXEMPTIONS:		
	<ul style="list-style-type: none"> • Superannuation in a members name who is under the pension age • Private dwelling on land up to 2 hectares (renovations to family home) • Gifting up to \$ 30,000 over 5 years (within 13 months) – Super funds for children/family • Funeral bonds of \$ 12,250, Burial plots (no limit) – 7.8% return for asset reduction 	

CENTRELINK - INCOME

1. INCOME TEST:

- | | | |
|-------------------------|-----------------------------|-----------------------------|
| – Single Pensioner: | Part pension if income is - | \$ 4,212 pa to \$ 49,296 pa |
| – Couple Pensioners: | Part pension if income is - | \$ 7,488 pa to \$ 75,454 pa |
| – Separated by Illness: | Part pension if income is - | \$ 7,488 pa to \$ 97,656 pa |

2. LOW INCOME HEALTH CARD (ANY AGE):

- | | | |
|------------------|------------------------|----------------------|
| – Single Income: | \$ 27,616 pa threshold | (Investments Deemed) |
| – Couple Income: | \$ 47,788 pa threshold | (Investments Deemed) |

3. COMMONWEALTH SENIORS HEALTH CARD (PENSION AGE):

- | | | |
|-------------------------|------------------------|----------------------|
| – Single Income: | \$ 52,273 pa threshold | (Investments Deemed) |
| – Couple Income: | \$ 83,636 pa threshold | (Investments Deemed) |
| – Separated by illness: | \$104,546 pa threshold | (Investments Deemed) |

4. INCOME TEST EXEMPTIONS:

- Superannuation in a members name who is under the pension age
- Allocated Pensions before 01/01/2015 (income reduced by deductible amount)
- First \$250 per fortnight of employment income

5. DEEMING RATES:

- | | | |
|----------------------|-------------------------------|-------------------------|
| – Single Pensioner: | 1.75% for the first \$ 48,600 | 3.25% for amounts above |
| – Couple Pensioners: | 1.75% for the first \$ 80,600 | 3.25% for amounts above |

CASE STUDY - COUPLE

➤ **BILL (Age 68 – 1/4/48) & VICKI (Age 63 – 1/8/53) - Home Owners:**

- **Cash Funds: \$ 40,000 (Joint)**
- **Direct Shares: \$ 10,000 (Joint)**
- **Cars/Contents: \$ 50,000 (Joint)**
- **Allocated Pension: \$ 400,000 (Bill)**
- **Allocated Pension: \$ 200,000 (Vicki)**
- **Current Age Pension: \$ 10,500 pa (Bill)**
- **Age Pension 1/1/2017:\$ 6,500 pa (40% reduction)**

OPTIONS - COUPLE

1. TRANSFER ALLOCATED PENSION TO SUPER FOR VICKI – UNDER PENSION AGE:

- Increase age pension temporarily until February 2018: (Vicki reaches pension age 65.5)
 - 1/7/2016 to 31/12/2016: from \$ 10,500 to \$ 13,000 pa (25% increase)
 - 1/1/2017 to 31/1/2018: from \$ 13,000 to \$ 12,500 pa
 - 1/2/2018 onwards: \$ 4,500 pa each

2. TRANSFER \$ 30,000 SHARES/CASH TO SUPER FOR CHILDREN/RELATIVES:

- \$ 10,000 in May/June 2016, \$ 10,000 in July/August 2016 & \$ 10,000 in July 2017:
 - 1/7/2016 to 31/12/2016: from \$ 10,500 to \$ 13,500 pa (30% increase)
 - 1/1/2017 to 31/1/2018: from \$ 13,500 to \$ 14,000 pa
 - 1/2/2018 onwards: \$ 6,000 pa each (\$ 1,500 pa each higher age pension)

3. SPEND FUNDS:

- Renovations to home & upgrade appliances. www.youtube.com/watch?v=L6_f2R7G4ZQ
- Holiday, Wellbeing & Health. www.youtube.com/watch?v=gS4z7dKa1TU
- Place funds in your credit card for future costs

4. FUNERAL BOND – (\$12,250) & BURIAL PLOTS (UNLIMITED VALUE):

- Increases the age pension by at least \$ 1,000 pa.

PASSING OF PARTNER

1. TRANSFER OF PENSION TO PARTNER (MOST COMMON STRATEGY):

- If Bill passes away in March 2018, Vicki will have the following assets:
 - \$ 200,000 existing allocated pension
 - \$ 400,000 reversionary allocated pension (from Bill)
 - \$ 20,000 cash (after transfer of \$ 30,000 to children in 2016/2017)
 - \$ 50,000 cars & contents
- The total assets of \$ 670,000 will exceed the limit for a single person of \$ 549,000
- The age pension for Vicki will reduce from \$ 6,000 pa to nil

2. MAINTAIN THE ALLOCATED PENSION IN THE PARTNERS NAME (ESTATE OF BILL):

- The allocated pension for Bill will accumulate tax free with no income being paid.
- The allocated pension is not counted as an asset for Vicki whilst in the Estate of Bill.
- The age pension for Vicki will increase from nil to \$ 21,000 pa.
- Vicki to run down her allocated pension to nil & then activate the reversionary on Bill's allocated pension – this will allow Vicki to maintain a partial age pension.
- Centrelink assets test will be indexed in March & September each year.

CASE STUDY - SINGLE

➤ **JOHN (Age 70 – 1/3/46) - Home Owner:**

- **Cash Funds:** \$ 20,000
- **Direct Shares:** \$ 10,000
- **Contents:** \$ 10,000
- **Car:** \$ 20,000
- **Allocated Pension:** \$ 400,000
- **Current Age Pension:** \$ 12,500 pa
- **Age Pension 1/1/2017:** \$ 6,500 pa (50% reduction)

OPTIONS - SINGLE

1. TRANSFER \$ 30,000 SHARES/CASH TO SUPER FOR CHILDREN/RELATIVES:

- \$ 10,000 in May/June 2016, \$ 10,000 in July/August 2016 & \$ 10,000 in July 2017:
 - 1/7/2016 to 31/12/2016: from \$ 12,500 to \$ 13,500 pa (10% increase)
 - 1/1/2017 to 31/7/2017: from \$ 13,500 to \$ 8,500 pa
 - 1/8/2017 onwards: \$ 9,000 pa (\$ 2,500 pa higher age pension - 40%)

2. SPEND FUNDS:

www.youtube.com/watch?v=L-ZMZb1rACg

- Renovation to home and upgrade appliances.
- Holidays, Wellbeing & Health. www.youtube.com/watch?v=gS4z7dKa1TU
- Place funds in your credit card for future costs.

3. FUNERAL BOND – (\$12,250) & BURIAL PLOTS (UNLIMITED VALUE):

- Increase the age pension by at least \$ 1,000 pa.

DEATH DUTIES

TAX ON ALLOCATED PENSION PAID TO CHILDREN/ESTATE FOR JOHN: PROPOSED CHANGES ANNOUNCED IN THE MAY 3rd, 2016 FEDERAL BUDGET

1. CURRENT RULES TO JUNE 30th, 2017:

(a) \$ 400,000 (Taxable Component) Allocated Pension paid to adult children:

* Anti - detriment payment made by various funds to cover tax of \$ 70,000.

* No strategy required unless the superannuation or pension fund does not pay the anti detriment payment amount (all SMSF's, various Industry Funds, etc).

(b) \$ 400,000 (Taxable Component) Allocated Pension paid to estate (no children)

* No Anti – detriment payment available and estate pays \$ 70,000 in tax.

* CIFP Strategy is to inspecie transfer to investment fund before death which will have no transaction costs and eliminate \$ 70,000 in tax. The Investment fund is established with either cash/shares/managed funds ready to accept the in specie transfer in the future from the allocated pension.

DEATH DUTIES

2. NEW PROPOSED RULES FROM JULY 1st, 2017:

- (a) **\$ 400,000 (Taxable Component) Allocated Pension paid to adult children/estate:**
 - * No anti - detriment payment available and children/estate pays \$ 70,000 in tax.
- (b) * **CIFP Strategy to inspecie transfer to investment fund before death which will have no transaction costs and eliminate \$ 70,000 in tax.**
 - * **CIFP Strategy to inspecie transfer to investment fund now which will have no transaction costs and re-invest back into super/pension to eliminate the future tax of \$ 70,000. New rules allow up to \$ 500,000 to be re-invested tax free.**

Assume the following:

- * **The \$ 400,000 is within the new lifetime cap of \$ 500,000 of non concessional contributions since July 1st, 2007. (Up to age 75 with no work test)**
- * **Pre 1/1/2015 Allocated Pension Centrelink Income Test Benefit.**
- * **Transaction costs (Buy/Sell) and in an out of market costs) - (1% - 2% costs)**

CIFP ASSISTANCE

- 1. STRATEGIES:** DESIGNED TO SUIT YOUR OBJECTIVES
- 2. RISK PROFILE:** LEVEL OF COMFORTABLE RISK vs RETURN
- 3. SECOND OPINION:** ANALYSE, EXPLAIN & COMPARE
- 4. FAMILY:** SERVICES AVAILABLE TO FAMILY & FRIENDS
- 5. FINANCIAL CHECK:** FREE FINANCIAL HEALTH CHECK FOR FAMILIES
- 6. UPDATES - WEBSITE:** [WWW.CIFP.COM.AU](http://www.cifp.com.au)

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