MARCH 2021

# Goldsborough

*Quarterly financial planning news and views*

# Stimulus musings...what in the world is going on?

The U.S. Congress has just passed its latest coronavirus relief package. Which happens to be worth $1.9 trillion dollars. That's pretty hard to get your head around and with an economy the size of the USA's, what does that mean for the rest of the world and Australia? Will it cause a boom in the markets or a crash resulting from higher-than-expected inflation? There are differing opinions and the truth is, it is too early to tell.

On top of the already spent $900 billion relief package in December and the $2.5 trillion of aid spent before that the dollars are starting to stack up. America is no Robinson Crusoe here as governments from around the world are saving their economies from the effects of Covid-19 with all their gusto.

The method of stimulus varies with Australia going down the path trod by Europe, which was to link the payments to the public through their employer; in conjunction with bolstering social security and other business stimulus measures.

The USA's approach differed resulting in higher unemployment figures but possibly a quicker economic rebound. They also spread their stimulus to more than just those who suffered reduced income. For example, I have a client with US citizenship who received stimulus cheques even though he is retired and has lived in Australia a long time.

Australia's last remaining stimulus measures from 2020 are now coming to an end (except if you are looking to travel interstate with discounted airfares). With:

- JobKeeper payment finishing 28 March;
- Coronavirus supplement finishing 31 March;
- Along with other rule changes affecting social security access to finish on 31 March.

All countries have had their economies affected differently by Covid-19. The health impacts varied as well depending on the timing of transmission, if there was warning it was coming or the season it came. Also, a government's response with lockdowns, travel restrictions, PPE requirements, the level of wealth and pursual of vaccines etc will influence the economic outcome too.

Coronavirus and its effects on the world's economy are not over yet, only in the future will we learn the best economic approach. There is limited precedent in history to guide us, giving me the feeling we are in the middle of a very large economic experiment.

There is likely to be an increase in volatility in the future, so I implore everyone to understand how their money is invested to have the best chances of remaining calm whether the markets melt up, meander along or drop down. For now, let's all keep our fingers crossed and hope for the best. ■


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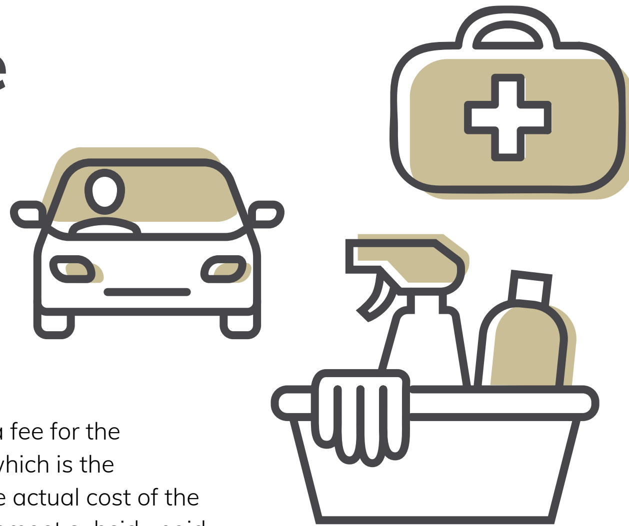
# Commonwealth Home Support Programme



The Commonwealth Home Support Programme (CHSP) provides entry level support for people aged 65 and older (50 and older for Aboriginal/Torres Strait Islander people) so they can continue to live independently at home.

Basic home care services are provided under CHSP to support people remaining at home (and to assist their carers if applicable). Common services used include domestic assistance, personal care, transport, home maintenance and nursing care.

### Assessment for CHSP

To access services under the CHSP, you need to apply for assessment via My Aged Care. An initial screening assessment is conducted to determine your circumstances and care needs. If you are eligible for the CHSP, My Aged Care will organise a face-to-face assessment (at no cost) at your home.

Once the assessment is complete, a home support plan will be developed for you. Referrals can be sent on your behalf to local service providers to get in contact with you, or alternatively you can contact My Age Care to assist with finding required services.

You can also get a referral code for each service you are eligible for, where you can then refer yourself to a CHSP provider using the referral code. This gives the service provider all the required information to allow the provider to start organising services for you.

### CHSP Fees

You may need to pay a fee for the services you receive, which is the difference between the actual cost of the service and the Government subsidy paid to a CHSP provider. A provider must not charge fees for a specific service greater than the actual cost of that service.

In accordance with Government guidelines, each provider must set out the amounts that you need to pay for a service in a client contribution policy that is publicly available. The CHSP is not means tested, and the guidelines are intended to ensure that only those who have the financial capacity will contribute to the cost of their care. If you cannot afford the fees stipulated, you cannot be denied access to services. Some CHSP providers will charge fees per service and others may charge an hourly rate.

As an example, the average cost of a range of services is as follows (as at February 2020):

- Meals $12.70 (client pays $5.90 and $6.80 is subsidised)
- Home maintenance $53.60 per hour (client pays $9.90)
- Transport $21.10 per trip (client pays $2.30)
- Domestic assistance $46.40 per hour (client pays $7.90). ■

## Retirement living & aged care seminar

Our next seminar is on:

**Wednesday 5 May
6.00pm**

Please call our office on 8378 4000 to secure your place.


**WILL CHAPMAN** Dip FS(FP)
Authorised Representative (311745)

# Property perspectives

Key economic drivers in Australia's property markets have collided in the last 12 months and a bit like an exploding star, fragments of the markets are shooting off in different directions.

These markets (both residential and non-residential) do have some economic tailwinds that are helping, which includes:

1. Money is cheap because the government has reduced interest rates and is actively increasing supply by issuing government bonds
2. Inflation is staying low, for now!
3. Business confidence and economic growth have been far better than expected given coronavirus, leading to better employment figures and reinvestment in the business sector.

However, cracks appear when looking at individual markets and what is driving them.

**Residential houses:** Broadly speaking, people are buying and/or renovating. Not as many people have been selling. Low interest rates help buyers, and the government renovation grants have sent the building industry into hyperdrive. Meanwhile, at the start of 2020, those who were thinking it was their year to sell have instead held off during coronavirus, so the supply of dwellings listed for sale turned off. At the peak of the crisis, many who thought they might be forced to sell instead have not. At the same time, the travellers among us decided that perhaps a nearby beach house might be a better place to get away. The general result is that broadly rising prices, high auction clearances and it's been considered a seller's market.

**Residential apartments:** Irrespective of the economic tailwinds, apartments are having a hard time of it. For example, in Sydney City and inner south, over 18% of mortgaged properties are in negative equity positions (owe more than they are worth). Over 99% of those properties are apartments and it's a story that is replicated across other cities' high-rise buildings. A lack of overseas travel and the appetite for being locked down in a 40m$^2$ apartment is having an impact.

**Commercial property** is a very fractured space. Distribution centres and key logistic locations are popular, likely driven by the public's appetite for having our online shopping goods delivered. That trend of online shopping conversely means retail spaces have been having a harder time of it. Office buildings are still being snapped up due to low interest rates, but businesses are questioning whether they need the office space now that many of their workforce can (and maybe prefer) to work from home. Agricultural land has also had plenty of interest and farmers are usually very familiar with carrying a lot of debt so it's appealing to expand with these interest rates. However, local farmland values are as diverse as Australia's landscapes and with the looming pressure from countries like China to cut off specific export markets, some ag businesses can pivot quicker than others (i.e. barley farmers can grow other crops but a vigneron cannot transition easily).

Ultimately, there has been some upheaval across property markets. Some investors have the attitude that housing will lift further with the return of overseas investors and immigration. Others fear that a rise in bond yields will translate to higher interest rates which put downward pressure on prices. Both attitudes are speculation. Like any investing, the fundamentals will determine whether an investment is worthwhile or not (rent, vacancy rates, surrounding influences, maintenance, management, liquidity etc).

A key in deciding whether to sell property is to know the sale costs and what you plan to do with the sale proceeds. A key in deciding whether to buy property is to work out your investment horizon (what is your exit strategy?), and what opportunity costs exist (what could you have otherwise done with the purchase funds).

Lastly, avoid 'Investor's Regret'. This is where you reflect and say "I never should have sold that beach house" or "I can't believe we didn't buy that property". It's sometimes hard to remember in the future why you made those decisions but if you write it down in a plan, you can always refer back to the circumstances: "We sold the beach house because it helped pay off the home and the kids' schooling which was killing our cashflow; plus it was a money pit, full of millipedes and we never used it." ■

**BRENTON MIEGEL** CFP®
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# CentreLink: exemptions for farming properties

For CentreLink purposes, your principal home is an exempt asset under the assets test. Further, your principal home can include adjacent land of up to 2 hectares (approximately 5 acres).

The value of any adjacent land in excess of 2 hectares is generally counted as an asset under the assets test. In addition, any income produced from adjacent land is counted towards the income test. There is, however, a significant exemption for people who have a long-term attachment to larger land parcels that are used to produce income. This exemption is called the 'extended land use test'.

Many older Australians who have lived and worked on farms for long periods of time retain a deep attachment to the land. They generally remain keen to continue living on the farm even after they are no longer able to effectively work due to age. Many retiree farmers have plans to pass the farm to the next generation upon their death but wish to remain living in the family home until that time. Often, the next generation will have been involved in running the farm for long periods and may live in homes on the farm itself or nearby. The extended land use test means that certain long term retiree farmers are not forced to sell their farms and move from their principal home to gain an adequate retirement income. However, they need to make effective use of productive land to generate an income, given their capacity.

The area of land adjacent to the principal home that is more than 2 hectares and held on one title can be exempt from the assets test under the following circumstances:

- the person has reached pension age;
- the person has qualified for the Age Pension or Carer Payment;
- the home has been the person's principal home for 20 or more continuous years;
- the person is making effective use of the land.

The person must have a 20-year continuous attachment to their principal home and adjacent land. The person or their partner must currently own their principal home and the person must have lived in that principal home for 20 continuous years or more or have lived in various homes on the one property for 20 continuous years or more.

It is not necessary for a person to have owned the property for 20 years to qualify for the exemption, the 20-year continuous attachment may have commenced prior to them acquiring the property. A continuous attachment to the land may not be impacted by certain temporary absences. These include temporary absences for a period of up to 12 months. Such temporary absences will allow the home to continue to be the principal home and for the resident to be considered a homeowner for up to 12 months.

If a person leaves their principal home to enter a care facility, the home can continue to be an exempt asset for up to two years. Likewise, vacation to enter a care facility for up to two years will not interrupt the 20-year continuous attachment to the land. Other absences will break the continuous attachment period and the person will no longer be able to use the extended land use exemption.

The extended land use test is also available to partners of a person who qualifies under the extended land use test. The land can be owned by either member of the couple, or by both. Where both members of a couple qualify for the Age Pension, one or both are required to have the 20-year continuous attachment to the land to be eligible for the assets test exemption.

*It is not necessary for a person to have owned the property for 20 years to qualify for the exemption, the 20-year continuous attachment may have commenced prior to them acquiring the property.*

Where one member of a couple qualifies for the Age Pension but the other does not, if the age pensioner has the 20-year continuous attachment to the land, both are eligible for the assets test exemption. However, if only the partner who does not qualify for the Age Pension has the 20-year continuous attachment to the land, then there is no assets test exemption.

Understanding the availability of an assets test exemption for retirees who have a long term attachment to land that is being used effectively to produce income may provide valuable Age Pension benefits. Goldsborough advisers have the experience and knowledge to be able to assist you if this situation were to apply to you. ■

**CRAIG KIRKWOOD** CFP®
Authorised Representative (401525)

# Don't get short changed when protecting your income

## For the vast majority of people, the greatest asset they hold is the ability to earn an income now and in the future.

The best way to protect this asset is to take out an income protection policy. In most cases, the policy covers 75% of your income up to age sixty-five, with the majority of the premium being tax-deductible. The Australian Prudential Regularity Authority (APRA) conducted a review of the insurance sector through 2019, to consider changes that ensure the long-term sustainability of life insurance companies. A number of changes have occurred since then, with arguably the more significant changes to occur from October 2021.

Currently an insurer can consider up to the previous three years of income to obtain the best twelve months of income to support a claim. This can be beneficial if your income was lower in the year of claim (for example due to maternity leave or change of employment), but was higher in the year or two prior to that. However, from October most policies will be limited to the insurer only considering the previous twelve months of income, which increases the risk of a reduced insurance payment.

As indicated above, income protection will usually cover 75% of a person's income; with the inclusion of some ancillary benefits, this can often increase the benefit up to 85%. APRA will now place a cap of 70% on benefits paid after six months and have also suggested insurers should adopt stricter definitions, or further reduce benefits on claims longer than two years.

The cornerstone of life insurance contracts in Australia is that they are generally guaranteed for the life of the policy – this means the policy holder can keep the original policy terms, when they renew each year without providing any updated medical or financial details. From October, insurers will have the option to modify the terms every five years. At the renewal, the insurer will still ignore any medical changes but will update the terms to reflect any changes to a policy holder's occupation rating, income, or risky pastimes.

These upcoming income protection changes are designed to reduce the risk to the insurer and transfer the risk back to the insured. The good news is that current polices, or those put into place prior to October, will retain the more beneficial contract terms for the life of the policy. As a result, if you don't have income protection, or if you are unsure if your current policy is right for you, **now is the time to act**. ■

LACHLAN HARVEY CFP®
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# What's happening in Bond Markets (and why it matters)?

Bond markets confuse people. When financial commentators talk about bonds, they often talk about yield rather than the price which is where the confusion begins. Essentially, if bond yields are rising then the price is going down.

**10-year Australian Government Yield**

Sources: RBA; Yieldbroker

In other words, this increase in long term interest rates has been bad for investors that hold government bonds through fixed interest funds.

### Why are long term rates rising?

The outlook for the global economy has improved. As business and consumer sentiment follows there is the risk of higher inflation. It is the threat of inflation that is leading to higher long term interest rates, given central banks tend to increase interest rates to combat rising inflation.

### How much have bond yields risen so far?

At the end of February, the yield for 10-year Australian Government bonds increased from 0.8% to 1.6%. US 10-year bond yields increased from 0.65% to 1.34%.

### What are central banks doing?

Interest rates are currently at all-time lows. Central banks across the globe have been actively trying to keep rates low to stimulate their economies. They have been most successful at doing this for shorter-dated bonds. Longer-term bond yields have been rising.

### What are fixed interest managers doing?

This has been a tough three months for fixed interest managers. We expect this to be a particularly tough time for index managers as active fund managers have more control over the duration of bonds in their portfolio. For example, they can manage risk by moving to shorter-term bonds. The price of shorter-term fixed interest investments tends to be less volatile.

### What should investors do?

The temptation to move out of fixed interest and into equities should be treated with caution. A sharp move in interest rates has the potential to spill over into the equity market. Inherently, the potential for investment losses is far greater in the share market than in bond markets. If economic growth disappoints, investor sentiment may again swing back in favour of longer-term bonds. Active fixed interest managers will be acutely aware of this balancing act and doing everything in their power to manage the downside risk. ■

MICHELLE SANCHEZ-MCCALLUM
Authorised Representative (325471)


# Super contribution limits

For those not familiar with super and the ways in which you can add money, it is important to note that there are certain limits, depending on the type of contribution being made. The limits have not changed in some time, but with the recent release of the Average Weekly Ordinary Times Earnings (AWOTE) for December 2020, the caps are set to increase due to indexation from 1 July 2021.

There are three types of contribution that you can make to super:

**Concessional –** these are tax deductible contributions with a current annual limit of $25,000. This will increase to $27,500 pa from 1st July 2021. This limit includes any super guarantee contributions (from your employer), salary sacrifice or personal tax-deductible contributions. These contributions attract 15% tax, but if your marginal tax rate is higher, then it can reduce your overall tax bill. It is also possible to contribute over and above the annual concessional cap if caps haven't been fully used in previous financial years.

*As an example, Anne is 57 and didn't work in the 2020 financial year. This year she has started a new job and is earning $120,000 pa. Her employer is adding super guarantee of $11,400 for the 2021 year. She can therefore make a tax-deductible contribution in the 2021 financial year of $38,600 using what's left of this year's cap and last year's cap as well, which has the effect of reducing her taxable income to $81,400.*

*You can check your concessional limits for the current and previous financial years via the myGov ATO portal under super > information > concessional contribution.*

**Non-concessional –** these are contributions where tax has already been paid; the limit is $100,000 pa for 2020 and will increase to $110,000 pa from 1 July 2021. These types of contributions are from bank accounts or investments where the tax has already been paid (i.e. savings in your bank account). As tax is already paid, no tax is applied when the money goes into your super fund. If you have a large amount of money and depending on your age, you may be able to contribute up to $330,000 in one year from 1 July, that is, three times the annual limit. But this precludes you from putting any more in the following two years (known as the "bring forward rule").

*For example, Jack has received an inheritance of $450,000 in February 2021. He plans to make a $100,000 non-concessional contribution before 30 June 2021 and a further $330,000 in July 2021. He will be able to contribute $430,000 to his super in a short period of time but cannot make any further non-concessional contributions until after 1 July 2024, as he will have used up his caps for 2022, 2023 and 2024.*

*You can check whether you have triggered the bring forward rule via the myGov ATO portal under super > information > bring forward arrangement.*

The non-concessional cap threshold has also increased from $1.6 million to $1.7 million. For example, from 1 July 2021, a person's non-concessional cap will be nil if their total super balance on 30 June 2021 is $1.7 million or more.

**Downsizer –** This is if you are over 65 and sell a property you have owned for at least 10 years, and in which you have lived for part or all of that time. It is separate to the other two contribution types and has a limit of $300,000 per homeowner, but it must be made within 90 days of settlement and an election made to the trustee.

*For example, Marie 69 and David 71 finally decide to make the move to a retirement unit. They sell their family home that they have lived in for over 25 years for $1,200,000. Within 90 days of settlement they make an election to their fund and contribute $300,000 to each of their super funds as a downsizer contribution. They use the remaining $600,000 to buy into the retirement village.*

If you wish to discuss any of these options, please get in touch with your Goldsborough adviser to look at your individual circumstances. ■

# Upcoming Seminars in 2021

As we hope to continue hosting all the 2021 seminars in our boardroom, the number of guests allowed per session will be restricted to ensure we comply with social distancing requirements current at the time. Appropriate hygiene measures will also be in place to ensure everyone's health and well-being.

Please note that should the COVID restrictions in Adelaide change to prevent a physical seminar to be held, we will host the session for all attendees via a video conference instead.

If you would like to register for any of our seminars, please contact our office on **08 8378 4000** or via email at **mail@goldsborough.com.au** Please also keep an eye on our Facebook page or website for the most up-to-date details.

## Retirement Living and Aged Care

Wednesday 5 May

Wednesday 4 August

Wednesday 3 November

**at 6.00pm**

If you or a loved one will need Retirement Living support and/or Aged Care in the coming years, then this seminar will explain the different options that are available.

## Retirement Planning Talk

Tuesday 11 May

Tuesday 10 August

Tuesday 9 November

**at 6.00pm**

There's never a better time to plan for tomorrow than today! We'd love to help you start planning your financial future, and it's as simple as attending one of our free Retirement Planning Talks.

# Referral award

Goldsborough is a referral-based business. **The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.** To show our appreciation for the referrals that we receive from our clients each quarter, we enter all names into a random draw and the winner receives a $100 gift voucher!

We have pleasure in announcing the winners of our 'Referrers Award' for the December 2020 quarter are **Andrew & Susan Zummo** — congratulations **Andrew & Susan**, your voucher is on its way.

***The winner of the draw receives a $100 gift voucher!***

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