Media Release 100 **6th September 2019**

Back to the Future – (the safety net just got a little bigger)

As we enter the later stages of our working lives, most of us have a reasonable idea of what retirement will look like. For those readers above 45, it may come with a confronting chill – what if I run out of money?

Fortunately (and perhaps surprisingly) in the last 12 months or so, the future has just got a little warmer for people in the draw-down phase of superannuation, particularly since 1 July 2019.

From 1 July 2019, the government has amended the Social Security means testing rules for the assessment of lifetime income streams, or to use the technical terms, *'Asset-tested income stream (lifetime)' or 'Lifetime Asset Test Exempt Income Stream (LATEIS).*

The commencement of a lifetime income stream on or after 1 July 2019 by a person over age pension age will now see just 60% of that income assessed under the income test, with just 60% of any investment counted as an asset until age 84 (or for a minimum of five years). After this time only 30% will be counted as an asset.

The recent change to the means testing of lifetime income streams is just one of a curiously quiet raft of positive (albeit unrelated) changes.

There are two other positive changes worthy of wider consideration; the (new) **Pension Loans Scheme** was also expanded and made more user friendly from 1 July 2019, and the **Downsizer Contribution** rules were introduced on 1st July 2018. I have discussed both of these changes in previous articles, but it is timely to revisit them here.

The effect of the changes to the means testing of lifetime income streams is significant, as $4,000 in every $10,000 invested in one these new annuity products purchased during the drawdown phase is discounted by Centrelink. Depending on circumstances, this has the potential to immediately increase part Age Pension payments.

The simple outcome is that part Age Pensioners with some cash may be able to increase their benefits. Further, self-funded retirees just above the asset test threshold (for example a homeowner pensioner couple with assets of $860,000) could now access a part pension sooner, by restructuring their investments and investing part of their funds in a **lifetime income stream.**

As an example of how these new rules might be applied, Vic and Viv, both aged 66, are a recently retired couple. They own their own home and each have $300,000 in account-based pensions, $50,000 in cash and term deposits and non-financial assets of $20,000.

Their total income of $61,522 pa (equal to the ASFA "comfortable" retirement standard for the June quarter 2019) includes a part Age Pension payment of $14,812 pa.

Their financial adviser is considering an alternate strategy which would allocate $150,000 (or 25%) of their assets from their account-based pensions to LATEIS.

The LATEIS in the following illustration are lifetime annuities and provide a combined guaranteed, fully CPI indexed income for life, starting at $6,583 pa (irrespective of how long these clients live or how investment markets perform).

Estimated Age Pension (today's dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 5 cumulative	Year 10 cumulative
Current portfolio	$14,812	$17,52	$20,051	$22,41	$24,666	$99,475	$252,036
LATEIS portfolio	$19,492	$21,50	$23,366	$25,14	$26,811	$116,323	$272,043
LATEIS difference	**$4,680**	**$3,978**	**$3,315**	**$2,730**	**$2,145**	**$16,848**	**$20,007**
% Change	**32%**	**23%**	**17%**	**12%**	**9%**	**17%**	**8%**

The allocation to LATEIS also sees Vic and Viv's annual Age Pension payments of $14,812 increase immediately by $4,680 pa to $19,492 pa, which means that Vic and Viv can opt to reduce by this same amount, the drawings from their other income streams, helping to sustain them over time. In subsequent years, the amount of increase in Age Pension benefit changes, based on the change in value of their account-based pension assets.

The estimated impact is up to $3,120 pa in extra age pension for a couple who invest $100,000 into a **lifetime income stream (assuming the value of the alternative asset is maintained).**

[1] *Source: Challenger Age Pension Illustrator and eQuote, 28 August 2019. Rates subject to change. Challenger Liquid Lifetime (Flexible Income option) Annuity with maximum withdrawal and death benefit period. The PDS is available via www.challenger.com.au.*

This Centrelink 'yield' plus the interest yield on the annuity itself, should provide a total return in excess of the deeming rate (and a higher again level of total cash flow, including return of capital) on what is, after all, a defensive asset.

Clearly, under this new means testing initiative, you can increase your total retirement income and part pension sooner, and deal with the risk of running out of money later in life. It is well worth exploring how it may impact on your own situation to see if it is appropriate for you.

Students of superannuation history, or those with a good memory, will recognise that these **'new' means testing rules for lifetime income streams** are very much like the Centrelink effect of Term Allocated Pensions (TAPs) which were introduced in 2004 before being prohibited for anyone else from 2007!

This suggests you should carefully consider these changes ASAP, in case these initiatives are closed too! To reprise J-B Karr, "***the more things change, the more they remain the same"…***

Another of these curiously quiet benefits is the Downsizer Contribution.

The Downsizer Contribution rule allows home owners over 65 who have lived in their home for 10 or more years, to transfer up to $300,000 each into super from the sale of their primary residence. This means that potentially, up to an extra $600,000 can be made tax-free for a couple to top up their Account Based Pensions.

(Perhaps it could be called the "Sydney/Melbourne downsizer's contribution", as the rest of the country do not generally have as much of an opportunity to take advantage of it).

Nevertheless, for those who are eligible, and have an enough gap between the values of their residences, the Downsizer contribution rules provide a wonderful opportunity to increase retirement capital in many different client scenarios, including moving to a regional area or an aged care facility. This has already been the case with a number of retiree clients.

Which brings us to the (new) Pension Loans Scheme.

Most people are aware that a homeowner couple over Age Pension age who have run down their assets (apart from their home) to $394,500, will generally become eligible for the full Age Pension of approximately $34,000 pa combined.

That is far from the sort of retirement income most baby boomers will aspire to. Virtually no retirees these days want, or are willing to live on just this basic couple's Age Pension. With the (new) **Pension Loans Scheme** (re-launched from 1 July 2019) you could do much better than that. This scheme enables you to receive up to 50% more Age Pension by allowing the Federal Government to effectively take a Reverse mortgage over your home

This could see a pensioner couple receiving as much as $51,000 pa in combined Age Pension, for a much better quality of life in retirement.

Yes, the government will recover this via the equity in your home but for many it is better that the alternative.

Why has the government not trumpeted these changes from the rooftops?

The cynic in me says they don't want too many people taking advantage of them – but there is merit in being able to say "we have fixed the retirement issue for Baby Boomers."

Perhaps their mandarins have not identified these measures as significant complimentary changes – and if left to stand alone, they should not be. They are, after all, just three minor, unrelated policy tweaks.

However, these three small changes open up excellent options for retirees, and I can see that these rules can (and will) be used together to create successful strategies.

For example, the Downsizer Contribution can be partly applied to a LATEIS income stream – releasing the equity in a Centrelink exempt asset whilst mitigating the loss of Age Pension!

It does concern me that only those who read the Eureka Report (or have a financial adviser) are likely to know about these new options – which is fundamentally unfair. These changes to the super and Centrelink rules in the last twelve months or so will help protect baby boomers as they retire.

Theo Marinis is Managing Director of Marinis Financial Group

-o0o-

For further information, please contact:

MARINIS
FINANCIAL GROUP

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategies (SA) Pty Ltd
Trading as Marinis Financial Group
T 08 8130 5130
F 08 8331 9161
E admin@marinisgroup.com.au
W marinisgroup.com.au
A 49 Beulah Road
NORWOOD SA 5067