Keeping in Touch

January 2017

Are your finances ready for this year's changes?

With many changes coming into effect this year – and more reforms being suggested – now is a great time to get your finances organised so you're prepared.

The new test for your pension
A significant change to the Age Pension asset test kicked in at the beginning of this month.

The good news is that the threshold has been increased, so you can own more assets before your pension is affected. But the penalty for going over the threshold has also increased. For every $1,000 of assets you have above the new threshold, your pension will be reduced by $3 – double what it used to be.

The assets test is one of two tests (the other is an income test) that determines the amount of your pension; it looks at any property you own (excluding your home), vehicles or investments you have and other assets. The test uses the total value of these assets to calculate your pension. If the value of your assets goes over a certain threshold, your pension is reduced accordingly. Your pension will be the smaller amount out of the two tests' results.

The changes will lead to 300,000 Australians having a smaller Age Pension and 100,000 losing their pension entirely, according to estimates provided by The Australian. But on a positive note, the federal government has stated that due to the changes 170,000 Australians will have their pensions increased.

If you lose your pension because of the changes, you will be automatically eligible for a Commonwealth Seniors Health Card, which offers discounted pharmaceuticals and Medicare bulk-billing, and the Energy Supplement, which is currently $366.60 per year for a single individual or $275.60 per year for a member of a couple.

The asset test thresholds vary depending on your marital status and whether you own a home, so you may benefit most from talking to your adviser about how the changes may affect you.

The age of entitlement
A Grattan Institute report titled Age of entitlement: age-based tax breaks published in November last year proposed several changes to the entitlements seniors receive. While these are only recommendations at this stage, it may be good to keep them in mind as you plan your retirement.

The Grattan Institute, an independent think tank, recommended changing three tax breaks for older Australians. It wants to wind back the seniors and pensioners tax offset (SAPTO) and Medicare levy income threshold, and reduce the private health insurance rebate for seniors, so they receive the same rebate as younger Australians. The institute says the changes could save the federal government $1 billion a year – a tempting figure when it faces an ageing population in increasing need of health and aged care services.

The recommendations focus on retirees who have incomes at taxable levels. This may include retirees who are self-funded or on a part Age Pension. The changes would have little effect on seniors who receive a full Age Pension.

Stay informed and plan ahead
While some retirees may set up a retirement plan and not look at it again, this year is already showing the importance of staying up to date. Making sure you're aware of any changes to superannuation and seniors' entitlements – locked in or potential – may help put you one step ahead.

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Regularly reviewing your retirement plan to ensure it can adapt to changes is an excellent way to keep your retirement strategy resilient. Talking to a trusted financial adviser may help you achieve that peace of mind.

To find out how we could help you, contact our office today and make an appointment with one of our professional financial advisers.

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