Newsletter: October 2020

Welcome to the latest edition of our client newsletters.

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition topics include:

- Understanding the Age Pension income and assets test
- Taking control of your personal finances in a COVID-19 world
- The twilight zone: Australian house prices falling but worse to come.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best

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Understanding the Age Pension income and assets test

Understanding how the Age Pension works, if you're eligible, and how much you could receive can help you plan in the lead up to retirement.

The Age Pension & eligibility

The Age Pension is an income support payment provided by the government to people who have reached Age Pension age. Generally, to be eligible you must:

- be aged 66 or over, depending on when you were born
- be an Australian resident and have lived in Australia for at least 10 years
- meet the income and asset tests.

The age you'll be eligible to apply for the Age Pension will depend on the date you were born, as shown in the table below.[i]

Your birthdate	Your age pension age	Date of age pension age change
1 Jan 1954 to 30 June 1955	66 years	1 July 2019
1 July 1955 to 31 Dec 1956	66 years and 6 months	1 July 2021
On or after 1 Jan 1957	67 years	1 July 2023

To receive the Age Pension, you must be an Australian resident and physically present in Australia on the day you submit your claim. You must also have lived in Australia for at least 10 years, during which there should be at least one period where you have lived in Australia continuously for five years.

To see if you are eligible, Centrelink runs two tests: the Age Pension income test and the Age Pension assets test. The tests measure how much income you get and how much your assets are worth. If your income or assets are above certain limits, your Age Pension payment will be reduced, or you may not be eligible at all. You can find out more about eligibility criteria via the Department of Human Services.

Income and assets tests

Centrelink will assess your income and assets to determine how much money you'll receive through the Age Pension. When assessing your income, Centrelink will consider all income streams you receive, including from sources outside Australia.

This includes things like:	It doesn't include things like:
employment	rental assistance payments
pensions, including account-based pensions	payments through an NDIS package
annuities	emergency relief payments
investments	regular payments from a close relative
salary packaging.	

You can find a complete list of all the income sources considered and exempt under the test at The Department of Human Services website. To work out how much your financial assets are worth as income, they use a set of rules known as deeming. Find out more about deemed income on the Services Australia website.

Centrelink will also use the market value of your assets to make a decision. Assets include things like investment properties, caravans, cars and boats and business assets. You can find a complete list of all assets considered and exempt under the test at The Department of Human Services website. Overseas assets have their value converted into the equivalent Australian dollar amount. If you live in your family home, it isn't counted as an asset. But if you decide to sell, it could affect your pension. There are also separate rules for granny flats and retirement village contributions.

There's a lot of things to consider when it comes to assets and retirement, so speak with us, so you can make informed decisions. Depending on the outcome of the income and assets tests, you may receive the full pension or part pension, or no assistance at all.

How much is the Age Pension?

The standard rate for Age Pension payments depends on the results of your income and assets tests. And if you're single or in a couple.

If you're eligible, the maximum standard Age Pension[ii] per fortnight is:

Singles $860.60 Couples $1,297.40

There is another rate, called the transitional rate. This applies to some people who were receiving a part-pension payment before, or on, 19 September 2009.

If you're eligible, the maximum transitional Age Pension[ii] per fortnight is:

Singles $775.20 Couples $1252.40

These amounts do not include any supplements. Age Pension rates are adjusted twice yearly, in March and September. You can find out more information on the Services Australia website.

Age Pension cut-offs

There are certain cut-offs for income and assets that will mean you're not eligible to receive any government assistance. These are the fortnightly cut-offs[iii] for aged pension income support:

If you're	You won't receive assistance when your income exceeds
A standard rate pensioner - single	$2,066 .60
Standard rate pensioners - couple living together	$3,163.20 combined
Standard rate pensioners - couple living apart due to ill health	$4,093.20 combined
A transitional rate pensioner - single	$2,151.25
Transitional rate pensioners - couple living together	$3,500.00 combined
Transitional rate pensioners - couple living apart due to ill health	$4,262.50 combined

*These thresholds were last updated July 2020

Your Age Pension cut-off point will be higher if you get the Work Bonus. Find out more at Services Australia. Similarly, there are limits on the value of assets you can hold before you're no longer eligible for the Age Pension. These fall into three categories – full pension, part-pension and transitional rate.

Cut-offs for assets for the full pension[iv]		
If you're	**Homeowner**	**Non-homeowner**
Single	$268,000	$482,500
A couple, combined	$401,500	$616,000
A couple, separated due to illness, combined	$401,500	$616,000
A couple, 1 partner eligible, combined	$401,500	$616,000
Cut-offs for assets for part pension[iv]		
If you're	**Homeowner**	**Non-homeowner**
Single	$583,000	$797,500
A couple, combined	$876,500	$1,091,000
A couple, separated due to illness, combined	$1,031,500	$1,246,000
A couple, 1 partner eligible, combined	$876,500	$1,091,000
Cut-offs for assets for transitional rate[iv]		
If you're	**Homeowner**	**Non-homeowner**
Single	$531,250	$745,750
A couple, combined	$826,500	$1,041,000
A couple, separated due to illness, combined	$928,000	$1,142,500
A couple, 1 partner eligible, combined	$826,500	$1,041,000

*These tables only consider those who are receiving pensions (including the Age Pension). Other thresholds apply to other income support payments. Updated July 2020.

If you're suffering severe financial hardship and your assets reduce your payment or stop you getting one, you can apply for consideration for special provisions. You can find out more at Service Australia Asset Hardship Provisions.

How much will I receive?

Use the Age Pension estimator on the Centrelink website to see what you might receive. As the amount you receive will be based on your income and assets you may want to consider how your assets (both super and non-super) may affect the amount you're eligible for.

Planning for retirement and working out your entitlements isn't always straightforward. Contact us as we can help you figure out what you're eligible for.

i https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/who-can-get-it

ii https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/how-much-you-can-get

iii https://www.servicesaustralia.gov.au/individuals/topics/income-test-pensions/30406

iv https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/how-much-you-can-get/assets-test/assets#assetstestlimits

Taking control of your personal finances in a COVID-19 world

Australians are becoming more engaged with their personal finances.

It's fair to say 2020 hasn't quite panned out the way any of us thought it would. From local bushfires to a global pandemic it's been a rollercoaster of a ride. But there's growing evidence that Australians are tapping into their reserves of resilience to set their family finances up for a post-coronavirus landscape.

Regardless of whether it's forced by circumstances beyond our control or simply because we're spending more time at home, research by Nature & The Lab shows COVID-19 has prompted many of us to become more engaged with our personal finances and focus more on our financial wellness[i].

The pandemic has impelled us into a state of heightened financial consciousness and put personal finances front of mind. With the bigger picture so uncertain, we're looking to control what we can.

5 ways COVID-19 has changed our financial behaviour

1. We're tracking our finances more closely than ever, with more than one in three Australians surveyed either reviewing their budget or creating a budget for the first time.

"This has been a breath of fresh air, I'm doing a financial spring clean and looking forward to getting back on track"

2. We're saving more and borrowing less by tracking our spending, looking for better deals and choosing the right products.

"It's the mindless swipe of the credit card. I'm realizing the consequences of small incremental spending adds up over time"

3. We're more engaged with our super and while most of us have taken the long view and avoided over-reacting to market volatility, we're checking our account balance and investment options.

4. We're focusing more on our investments and seeking more frequent updates on financial performance.

"I've always been careful with money but this has made me more determined than ever to get ahead"

5. We're more conscious of needing an emergency fund and building a safety net so we're better prepared in the future.

Tips to help maintain your financial wellness and realise your goals

- Implement small realistic steps to reach your long-term goals - if you feel your retirement plan isn't quite on course, we can help you get you back on track.
- Manage your debt more effectively - contact us if you'd like a hand getting on top of your debt.
- Become a better saver - it doesn't have to be a complex spreadsheet. There could be some simple day-to-day tricks to help you spend less and save more. Have you heard of the *Seven-day rule* or the *50/20/30 rule?* They could be the catalyst you need to change your relationship with money for good.
- Set a budget and review it regularly - there are online calculators to help make your life easier, like AMP's Budget planner calculator.
- Take advantage of your financial provider's online tools and apps.

Contact us if you'd like more help with your personal finances.

i Nature & The Lab research, Apr-May 2020.

The twilight zone: Australian house prices falling but worse to come

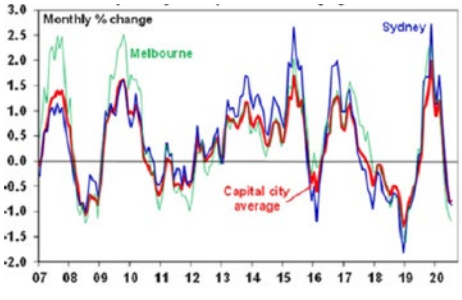
Average property prices across Australia's capital cities fell for the third month in a row in July. The monthly fall, of 0.8%, means capital city prices have fallen 2% on average since their peak in April 2020[i].

AMP Capital chief economist and head of investment strategy Dr Shane Oliver says average property prices rose by 10.3% between June 2019 and April 2020, but that the property cycle has now "well and truly turned back down again."

"The rebound in property prices from around mid-last year ended in April and the hit to the economy from the COVID-19 (coronavirus) shutdown and associated uncertainty is now driving property prices down," Dr Oliver says.

"Were it not for the economic support measures protecting heavily indebted households and property investors, prices would be falling more rapidly in response to forced sales. As a result, we're in a bit of a twilight zone as support measures help to protect the property market and keep the price falls gradual at this stage."

Capital city home prices are falling again



Source: CoreLogic, AMP Capital

How your city fared

The two Australian cities hit hardest by COVID-19 outbreaks experienced the biggest fall in prices in July. In Sydney, prices fell by 0.9%, and have now fallen by 2.1% since April, while in Melbourne prices fell 1.2% and are down 3.2% from April[i].

Prices also fell in Brisbane (-0.4%), Perth (-0.6%), Hobart (-0.2%) and Darwin (-0.3%), but rose in Adelaide (by 0.1%) and in Canberra (by 0.6%)[i], thanks partly, Dr Oliver says, to the stability of public sector jobs in that city.

Regional Australia

Across regional Australia, average house prices remained unchanged in July. The only regional areas where prices fell were in Victoria (down 0.5%) and Western Australia, where average prices fell 3.2% for the month[i].

"Regional prices are likely to hold up better than in the cities, due to lower levels of household debt which makes regional residents less vulnerable to the financial stresses caused by the economic downturn," Dr Oliver says.

He adds that regional areas may experience a further boost as the shift to working from home makes it easier for people to relocate from the capital cities while still keeping their city jobs.

What lies ahead for property prices?

"I expect further falls ahead as high unemployment, the depressed rental market and the collapse in immigration take their toll," Dr Oliver says.

He adds that while JobKeeper, the increased JobSeeker payments, bank payment holidays and other support measures have helped to prevent a sharp fall in prices, it's likely that the price falls will increase in size from October as these economic support measures start to be reduced.

"Sydney and Melbourne will be most vulnerable to falling property prices given their higher dependence on immigration, higher debt to income ratios, higher house price to income ratios and greater investor penetration."

Big falls predicted

Due to the resurgence of COVID-19 in parts of Australia, Dr Oliver is now forecasting average property prices will fall by 10-15% in total from April this year, an increase from his previous forecast of 5-10% fall. However, if Australia succumbs to a widespread second wave of COVID-19, bringing with it more economic shutdowns, he says the falls could exceed 20%.

"I'm also assuming more government stimulus will be announced in the months ahead – if it's not forthcoming that would also add to the risk of a sharper fall in property prices."

In Melbourne, where a second wave of COVID-19 has already led to a second economic shutdown, Dr Oliver forecasts the falls will be larger than the national average, at 15-20% in total.

"Sydney prices are likely to see a total decline of 10-15% whereas Adelaide, Brisbane and Hobart are only likely to see falls around 5%."

"Perth looks a bit more fragile, despite having seen a 22.3% decline from its 2014 high, and so prices there are likely to fall 5-10%, but I expect Canberra property prices are likely to be flat, or even rise."

i https://www.corelogic.com.au/news/australian-housing-values-continue-drift-lower-falling-06-july-covid-driven-housing-downturn