

# Newsletter: Spring 2019

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## Pensions to rise as deeming rates fall

It's been a long time coming, but up to 630,000 retirees could soon enjoy a small but welcome increase in their Age Pension payments following a cut in deeming rates used for the pension income test.<sup>i</sup>

Under the Age Pension income test, you are 'deemed' to earn a certain rate of interest on your savings and investments no matter how much income you actually receive.

The federal government announced in July that it will cut the lower deeming rate from 1.75 per cent to 1 per cent for financial investments worth up to \$51,800 for single pensioners and \$86,200 for pensioner couples where at least one person receives a pension. The upper deeming rate for savings above these thresholds will be cut from 3.25 per cent to 3 per cent.<sup>ii</sup>

As a result, Treasurer Josh Frydenberg said single pensioners could be better off by up to \$804 a year and couples by up to just over \$1,000.

Eligible pensioners will begin to receive the benefits from 20 September 2019 when pensions are next adjusted, but any extra payments will be backdated to July 1.

### How does deeming work?

The deeming rules apply to income from financial assets such as superannuation (where the individual has reached age pension age), shares, savings accounts, term deposits and other fixed interest investments.

Different deeming rates apply if you are single or live with a partner.

To be eligible for the full Age or Veteran's Affairs Pension under the income test, a single person can earn up to \$174 a fortnight (\$4,524 a year) before losing some of their pension. Couples can earn up to a combined \$308 a fortnight (\$8,008 a year).

For every \$1 you earn over the threshold you lose 50c in pension income.

Once your financial assets reach a certain threshold, your pension eligibility will be determined by the assets test rather than the income test. Single homeowners can have assets of up to \$263,250 before their pension is reduced (\$473,750 for non-homeowners). Home-owning couples can have \$394,500 combined (\$605,000 for non-homeowners).

## Who is most affected?

Because of the complex interplay between the Age Pension income and assets tests, your relationship status and whether you own your home, the people most affected by deeming rates are part-pensioners.

With official interest rates at a record low of 1 per cent, Age Pensioners who depend on income from cash investments face a double whammy. Not only do they receive less income from their bank deposits as interest rates fall, but they also risk losing some pension because they are deemed to earn more than they do.

Until the recent cut to deeming rates was announced, they had not moved since 2015. Since then, the Reserve Bank has cut the official cash rate five times, most recently in July, to a new historic low of 1 per cent with further cuts expected.

But there are also winners from the current level of deeming rates.

## Winners and losers

Single pensioners with less than \$51,800 in term deposits, and pensioner couples with less than \$86,200, are probably earning a better rate of interest than the lower deeming rate of 1 per cent.

Even better off are retirees with money invested in Australian shares (either owned directly or within managed funds or superannuation) where yields have been over 4 per cent.<sup>ii</sup> This is significantly higher than the top deeming rate of 3 per cent.

Growth investments such as shares not only provide the opportunity to grow your capital over the long term, they pay regular income in the form of dividends along the way.

It's understandable that retirees are risk averse and want to protect their capital. Bank term deposits provide the certainty of capital protection with a reliable income stream. But there is also an argument for diversifying your sources of income once you have covered your needs for ready cash.

*If you would like to discuss your investment strategy in the light of changes to deeming rates and your Age Pension entitlements, give us a call.*

- i Treasurer Josh Frydenberg speaking on ABC TV, 14 July 2019, <https://www.abc.net.au/news/2019-07-14/federal-government-announces-600-million-pension-boost/11307454>
- ii Dept of Human Services, <https://www.humanservices.gov.au/individuals/news/changes-deeming-rates>
- iii ASX Market Index, All Ords average dividend yield, <https://www.marketindex.com.au/statistics>. CoreLogic, gross rental yields in year to June 2019 were 4.1%, <https://www.corelogic.com.au/sites/default/files/2019-07/CoreLogic%20home%20value%20index%20JULY%202019%20FINAL.pdf>

## How super is your life insurance?



For most people, life insurance provides a safety net against unexpected events. This is particularly the case if you have a mortgage, debts or family who are dependent on you earning an income.

In many cases, life insurance has been automatically offered through superannuation. Although 85 per cent of people hold life insurance this way, a recent survey found one third of them don't even realise.<sup>i</sup>

Now some super members may have lost their insurance cover and may not be aware of it.

### Millions could lose cover

Concern that super balances were being eroded through insurance premiums and fees has led the government to introduce Protecting your Superannuation legislation.

As a result, from July 1 this year your insurance cover is to be cancelled if your fund has been inactive for more than 16 months.<sup>ii</sup>

Letters were sent towards the end of the financial year to those with inactive funds, advising you to contact your fund to make a contribution or risk losing your life cover. If you didn't respond, your life insurance policy may have been cancelled.

It's estimated that up to 3 million super members may have been affected.<sup>iii</sup> And while you can buy a new life insurance policy, you may not be able to reactivate your previous one unless your fund offered an extension of the deadline to reactivate cover. If not, you may have to face a medical examination and/or pay higher premiums in order to take out a new policy.

### Younger members to opt-in

It is also proposed (although not yet legislated) that new superannuation fund members who are aged under 25 will no longer be given automatic life insurance cover as they have in the past. Instead, they would be given the opportunity to opt in to cover.

The argument in favour of this move is that young people with no responsibilities, have nothing to insure. But once you buy a home, get married or become a parent, the need for life insurance becomes paramount.

As you get older, once the family has flown the nest and you have paid off all your debts, the need for life insurance may reduce. However, with a blended family, a life insurance policy in super can prove a good financial strategy to ensure the right beneficiaries receive your money. That's because superannuation 'death benefits' don't form part of your Will but are paid out separately to your nominated beneficiaries.

### SMSFs may also be caught out

Up until now, some self-managed super fund members have deliberately kept a public offer super fund active to take advantage of the cheaper insurance. But as stated above, if that public offer fund is inactive and an election to maintain cover has not been made, then cover may be lost.

The beauty of having life insurance in super is that the premiums are generally cheaper because you are charged at a group rate. In addition, it won't affect your cashflow as premiums come out of your super. Of course, that is the point of this legislation. The monies available for investment to build your balance for retirement may be eroded through those very premiums.

Another precautionary note is that it may be harder to access a payout through super if you need to make a claim. If you haven't correctly nominated a beneficiary in your super, then it is the trustees who decide who receives the payout. And because the insurer makes the payment via the fund, this can also take longer.<sup>iv</sup>

### What happens next?

As part of the Protecting your Super changes, inactive funds with balances less than \$6000 will see the monies transferred to the

Australian Taxation Office. The ATO will then endeavour to amalgamate this money with an active superannuation fund of yours or hold the money for you until it is claimed.

If this happens, investment returns on the money held by the ATO may be significantly less than if you invested through your super.<sup>v</sup>

*Don't wait until you need to make a claim to discover you don't have any insurance cover after all. If you have any questions about the changes or your insurance needs in general, give us a call.*

i <https://www.superannuation.asn.au/media/media-releases/2019/joint-media-release-10-june-2019>

ii <https://firststatesuper.com.au/member/super/manage-super/protect-your-super>

iii <https://www.superannuation.asn.au/media/media-releases/2019/joint-media-release-10-june-2019>

iv <https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/insurance-through-super>

v <https://www.ato.gov.au/Individuals/Super/Growing-your-super/Keeping-track-of-your-super/ATO-held-super/>

## Changing the narrative to achieve success



As children, we are surrounded by stories. The books our parents read to us, the cartoons we watch, the imaginary games we play. As adults we might like to think that story time is over. But it isn't.

We are constantly surrounded by narratives in the media, amongst our peers and in our own heads. If these narratives are positive, they can propel us forward. But if they are negative, they can hold us back.

The sky's the limit until we hit our self-imposed limitations, usually founded in feelings of fear and unworthiness.

So how do we break through these limitations and start reaching our goals. The answer is to change the narrative.

### How we limit ourselves

To change any narrative, you need to have the right words. And in this case, that means identifying the obstacles you've set yourself and being able to communicate them. Identifying your fears is never easy or comfortable, but it helps to know that they usually fall into three main brackets.

### Fear of failure

This is the big one and it manifests differently in everyone. For some, it's short-selling your abilities, for example not going for a new job because you fall slightly short on the listed criteria. Others might suffer from a stifling perfectionism, missing deadlines and opportunities because of an inner critic in overdrive.

This in turn can develop into what famed TED talker and vulnerability expert, Dr Brené Brown, calls 'self-handicapping'. Say you're preparing a

proposal that requires a lot of research—instead of doing the work you avoid it. The internal logic goes that if you don't try, you can blame any ensuing failure on lack of effort, which is easier to bear than lack of ability. The problem with this approach: you never get anything done, and your career trajectory will inevitably stall.

To combat this, start with that old adage, 'nothing ventured, nothing gained'. For as novelist JK Rowling said in her now viral Harvard Commencement Address, 'It is impossible to live without failing at something, unless you live so cautiously that you might as well not have lived at all – in which case, you fail by default.'<sup>1</sup> Getting comfortable with failure isn't easy, but it is perhaps the only given on the pathway to success.

### Fear of comparison

No one likes to be negatively compared to others. But when we fear it intensely, envy can turn to jealousy, which doesn't usually bear great outcomes. It doesn't feel too good either.

Two-time Olympic Gold medallist, Abby Wambach, thinks we need to change our approach. She takes the soccer pitch as a metaphor. When you kick a goal, run towards your teammates. They set you up for the shot. Likewise, if your team mate scores, run towards them, and celebrate their victory. Success almost never exists in the vacuum; it is usually the cumulative result of a lifetime of learning and other people's input.

### Fear of conflict

While Hollywood screenwriters love conflict, in the workplace and our personal lives we tend to avoid it at all costs. But avoidance isn't necessarily helpful. It often leads to a reduction in productivity, and mounting unspoken tensions. Worse still, when the conflict does inevitably come to a head, it is more profound than if it had been dealt with early on.

One useful tool in these situations is what Dr Brown calls 'the story I'm telling myself'. It's a great way to frame conversations and avoid misconstruing your projections about the other with their reality. Rather than casting aspersions or laying blame, open the conversation with the sentence 'the story I'm telling myself...' It will allow the other interlocutor the space to hear you, and open the door to vulnerability, which is crucial to conflict resolution.

### Changing the narrative

We all have a tendency to limit ourselves when it comes to realising our dreams. But if you start to acknowledge the fears behind these limitations you can also start to unlearn them. Change the narrative you're telling yourself about the life you deserve, and this might be one story that ends happily ever after.

i <https://news.harvard.edu/gazette/story/2008/06/text-of-j-k-rowling-speech/>

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