

KeyPlay Financial Services' 2017 Spring Newsletter

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Hello and welcome to the 2017 Spring edition of the KeyPlay Financial Services' Newsletter.

The AFL Grand Final is almost upon us again and for me as a Carlton supporter that means another year of waiting... at least!

Rob, Laura and Lindsay are all Geelong supporters so they are still up and about and hoping that the Cats will make it to the MCG on the 30th September.

I was hoping the Swans may have got through after their 0-6 start to the season, to make history – but alas their run ended in a spectacularly "un-Swans like" performance against the Cats.

So far there has been only one close Finals match - Port Adelaide v West Coast – so hopefully with 3 to go - we at least see some exciting matches!

"Have you Seen Simone?"

I was in Sydney at the end of last month and was lucky enough to meet with acclaimed Australian author Virginia Peters in the Lindt Cafe.



We met at the Lindt Café in Martin Place as a token of support for the staff and business that suffered through the terrible siege in December 2014. The Café was busy and it seemed to be well supported which was good to see.

Virginia published a book titled **"Have You Seen Simone?"** in 2010. The book is the story of the unsolved disappearance and murder in 2005 of German backpacker Simone Strobel in Lismore in New South Wales.

Simone was backpacking around Australia with her German boyfriend, his sister and her boyfriend, also both from Germany. However, she went missing and 6 days later her naked body was found hidden beneath a palm tree not far from the caravan park where the backpackers were staying.

At the inquest in to her death, the police stated their belief that her boyfriend, Tobias, had killed her, although he has never been charged with any offence involving Simone.

So how did Virginia become involved in this case and why did she?

Soon after Simone went missing "Have you seen Simone?" flyers were put up around Lismore. (The cover of the book is a print of the flyer). Virginia was sitting in her local café after her morning walk, when the missing face on the side of the fridge caught her attention.

She was drawn to that face in the flyer and felt the urge to find out "where she was" (if she was still alive) and then (after her body was found) "who she was" and what had happened to her.

Despite trying to tell herself that she was too busy with work and family commitments to follow this up, the repeat sightings of the flyers around town made Virginia feel that Simone (whoever she was) was pleading with **her** for action.

So, Virginia responded. She began a 5-year journey in which she dedicated her life to finding out what happened to Simone and then published the book in 2010 (although the crusade continues today - some 12 years later).

As detailed on Virginia's website, she worked alongside the police analysing the evidence, speaking with witnesses, recounting testimony, attending the inquest and also travelling to Germany to interview families and friends of Simone and her travel partners.

Ultimately, she tracked down and interviewed Tobias – who today lives in Perth in WA – and spends his time mainly surfing.

To date the murder remains unsolved which eats away at Virginia every day of her life. Her dedication in taking on a project into someone's death and then life - from scratch - was an incredible achievement and gave a voice to Simone from the grave.

The book was not just about a vanished person and a murder, but also about one person's crusade to discover the families, the personalities and the lives of those involved in and those affected by this tragedy.

Questions are raised throughout the book as to what happened to Simone and why – but unfortunately, we still do not know the answer, some 12 years later.

Knowing what happened to Simone will not only bring a closure of sort to Virginia, but also a peace for Simone's family who live every day "not knowing". I also suspect somehow, somewhere there would be some peace for Simone.

If Virginia's travels ever bring her to Ballarat, I have invited her to KeyPlay and to share the story of her work with us in a special client presentation.

Virginia is a passionate and caring author which is abundantly evident in her book and it was a privilege to meet her. Although Simone was unlucky in life, she was lucky that Virginia Peters saw her face on that flyer in the café in 2005.

Have a look at Virginia's website and when you need a good book to read - which has been written with dedication and commitment - order yourself a copy of ***"Have You Seen Simone?"*** from Virginia's website.

The website is: www.virginiapeters.net

And let Virginia know what you think of the book when you have read it – via the Contact link on her website.

Tony

Reinstatement of Pensioner Concession Cards:

The 92,300 former pensioners who lost entitlement to the Pensioner Concession Card when their pension was cancelled due to the assets test changes on 1 January 2017, will have their Pensioner Concession Card reinstated from 9 October 2017. And further, the reinstated Pensioner Concession Card will not be subject to an income or assets test.

BACKGROUND: On 1 January 2017, clients who lost entitlement to the pension due to the assets test changes were automatically issued with:

- a non-income tested Low Income Health Care Card, and
- if over Age Pension age, a non-income tested Commonwealth Seniors Health Card.

While the Commonwealth Seniors Health Card and Low-Income Health Care card provided similar benefits to the Pensioner Concession Card, they did not provide access to the Australian Government Hearing Services Program or many other state and local government discounts.

Therefore, reinstating the Pensioner Concession Cards will reinstate these benefits for clients.

CHANGES IN CONCESSION CARD

ELIGIBILITY: This reinstatement of Pensioner Concession Cards is limited to clients who:

- immediately before 1 January 2017, were receiving a social security pension, and
- the rate of that pension was nil on 1 January 2017 because of changes to the assets test, and
- the person is not otherwise qualified for a Pensioner Concession Card.

Former pensioners who were automatically issued a non-income tested Commonwealth Seniors Health Card on 1 January 2017 will continue to hold these cards.

However former pensioners issued with a non-income tested Low Income Health Care Card will not retain the card once the Pensioner Concession Card is reinstated.

ONGOING INCOME AND ASSETS TEST

EXEMPTIONS: For clients who lost entitlement to a pension on 1 January 2017 as a result of the assets test changes, the reinstated Pensioner Concession Card has an ongoing exemption from the income and assets tests.

A retained non-income tested Commonwealth Seniors Health Card also remains exempt from the income test.

The cards are to be mailed progressively from the 9th October 2017.

“Downsizer” Super Contributions:

The government has introduced legislation to implement ‘downsizer contributions’, which allow those aged 65 and over to make super contributions of up to \$300,000 per person from selling their main residence.

The intention of the legislation is to encourage retirees to move out of large houses and free up housing stock, however retirees need to carefully consider the tax, social security and aged care implications before taking advantage of the proposed scheme.

OVERVIEW: If legislated, a person age 65 or over may make one or more superannuation contributions (called ‘downsizer contributions’) from the proceeds of selling their main residence, up to \$300,000.

The new measure is proposed to apply to contributions from the proceeds of contracts exchanged on or after 1 July 2018.

The key benefit of downsizer contributions will be the ability to invest sale proceeds in the concessional taxed super environment when over age 65 without having to meet the work test or contribution caps.

However, retirees need to consider the impacts on their social security entitlements and possibly aged care fees as funds invested in superannuation under these rules are assessed as financial investments.

KEY FEATURES: The following outlines the key features of the proposed ‘downsizer contributions’ scheme.

DOWNSIZER CONTRIBUTIONS -

Eligibility: For a contribution to qualify as a downsizer contribution:

- Contracts for the sale of the client’s main residence must be exchanged on or after 1 July 2018.
- You must be aged 65 or over at the time of the contribution.
- The contribution must be sourced from the proceeds of the sale of one qualifying main residence.
- Either you, your spouse, or former spouse (or a combination) had an ownership interest in the main residence for at least 10 years immediately prior to the sale.
- The contribution must be made within 90 days of the change of ownership of the main residence (or a longer time allowed by the Commissioner).
- You must notify the super fund trustee in the approved form of the choice to treat the contribution as a downsizer contribution at the time the contribution is made.
- You cannot make a downsizer contribution if you have made a downsizer contribution(s) in relation to the sale of a different main residence in the past.

It is important to note that even though the contributions are called ‘**downsizer contributions**’, there is no obligation to subsequently purchase a new residence.

DOWNSIZER CONTRIBUTIONS CAP:

Downsizer contributions are limited to the lesser of:

- \$300,000 per person, less any downsizer contributions already made to that person’s superannuation fund from the sale of the same main residence, or
- capital proceeds received by a person (and their spouse, if relevant) from the sale of a main residence, less any downsizer contributions already made in respect of that person and their spouse (if relevant) from the sale of the same main residence.

For couples, each spouse may make maximum downsizer contributions of \$300,000. This

means a couple may invest up to \$600,000 of sale proceeds in super between them.

POTENTIAL SOCIAL SECURITY AND AGED CARE IMPACTS: By making downsizer contributions a person may potentially receive less social security benefits or increase their cost of aged care (or both).

The draft legislation for downsizer contributions does not specify any related changes to the social security or aged care assessment laws of superannuation interests. If the current assessment remains unchanged then the social security and aged care impact of a downsizer contribution will need to be considered.

Social Security: For social security purposes the principal home (which includes certain adjacent land) is an exempt asset, regardless of its value.

If a person, aged 65 or over, uses some of the proceeds from the sale of their main residence to make a downsizer contribution to super, that amount is effectively converted from being asset test exempt (when it was invested in the family home) to being asset test assessed as a superannuation accumulation interest and is subject to deeming for the income test.

If the downsizer contributions are subsequently invested in an account-based income stream, that income stream is similarly assessed for the assets test and subject to deeming for the income test.

So, depending on your personal situation, having more money in super, rather than a main residence may reduce Centrelink benefits.

Aged Care: For those planning to sell their main residence and who are already in or entering aged care, it is important to consider the impact on any Centrelink benefits they are receiving/may receive, as these ALSO impact on the ongoing cost of care.

For aged care purposes, the former home is generally assessed at the capped amount of \$162,087.20 unless a 'protected person' resides in the home. (There may also be exemptions on the assessment of rental income where the person first entered aged care prior to 1 January 2016).

By selling the former home and using the proceeds to make a downsizer contribution to

super, the amount of that contribution may effectively be converted from being substantially asset test exempt for aged care purposes (depending on the situation) to now being assessed and included in the Aged Care assessment when it is invested in super.

So, depending on personal situations, having more money in super, rather than a main residence may increase the ongoing cost of aged care and potentially reduce social security entitlements.

Importantly we would need to discuss this with you BEFORE any action was taken so as to assess the Centrelink and Aged Care ramifications for your personal position.

(Also note the Legislation is currently before Parliament and is not yet law).

Australian Company Reporting Season:

On the investment news front, the August Reporting Season saw the profits from our Australian share companies continue to improve, although the general feeling in big business was one of reasonable profit growth without much flair.

Aggregate market profits rose 20% year-on-year in the six months to the end-June 2017, up modestly from the 18% growth recorded in the previous half year. This was close to expectations, with the overall reporting season being classed as "reasonable but not spectacular".

Citi Research (Plays of the Month, August 2017) data suggests that around 58% of companies met expectations, whilst 18% were better than expected and 24% disappointed.

Earnings growth was again dominated by resource stocks that commenced their strong earnings recovery in the December 2016 half and resource profits rose 140%.

One of the main factors driving the strength in resource earnings is higher commodity prices. In recent quarters, China has significantly reduced capacity in certain sectors due to environmental concerns. This includes steel, iron ore, aluminium smelting and coal production. This supply restriction has coincided with better than expected resource demand in China due to infrastructure spending and the housing sector continuing to do reasonably well.

Therefore, with supply restricted and demand solid, Australia's key commodity prices have rallied strongly. The iron ore price has risen 34% over the past 12 months and the coal price is up nearly 40%, which has fed directly into higher resource company earnings.

Looking forward, current consensus expectations for iron ore and coking coal prices are significantly below where spot prices are trading in the market.

If current spot prices are sustained over the next 6-12 months, it is possible that companies exposed to iron ore and coking coal (e.g. BHP Billiton, Rio Tinto, Fortescue Metals Group) will experience 100% earnings upgrades by analysts.

This would clearly be positive for the sector and suggests the rally in resource stocks may have further to run. The key, as always, will be China, so developments in the Chinese economy and markets will be important.

In the banking sector, half yearly earnings reports were delivered by Commonwealth Bank (CBA) and Bendigo and Adelaide Bank (BEN), whilst National Australia Bank (NAB), ANZ Banking Group (ANZ) and Westpac Banking Corporation (WBC) delivered quarterly trading updates.

The main themes were as follows: 1. Bad and doubtful debts (BDD) remain very benign and this is supporting earnings growth. 2. Net interest margins are holding up, largely due to the out-of-cycle mortgage interest rate rises that the banks have implemented over the past year. This has increased mortgage interest payments whilst the banks' funding costs have remained stable - (given the Reserve Bank of Australia has kept the cash rate unchanged at 1.5%). 3. Earnings numbers were largely in line or slightly better than expected, but profit growth remains low by historical standards.

CBA announced a favourable FY17 result, with cash earnings of \$9,881.0 million, a final dividend of 230 cents per share and confirmation of the bank's strong capital position. Margins improved and credit quality remained very supportive. However, the stock has underperformed significantly as scandals, including breaches of the anti-money laundering legislation and the subsequent announcement that CEO, Ian Narev, will retire at the end of this year, have caused the stock to lose its price premium relative to the other major banks.

In the telecommunications sector, Telstra (TLS) advised of a change to its full year dividend to 22 cents per share (cps) for FY18, (down 30% from the 31cps delivered in FY17). Subsequently the stock was sold off -to the disgust of long suffering Telstra shareholders!

The main reasons for the fall included: 1. Impacts from the NBN migration – The NBN rollout has forced TLS to change its business model and significantly lowered its margins.

TLS has been transformed from an infrastructure owner earning close to 50% margins on earnings (before interest, tax, depreciation and amortisation - EBITDA) to a reseller of NBN infrastructure earning around 10% EBITDA margins on analysts' forecasts. So, profitability has been severely impacted. 2. Increased competition in the mobile market – the coming entry of TPG Telecom into the mobile market will further increase the competitive pressures faced by TLS. This has implications for TLS's market share and profitability in a sector that has historically been a core growth driver within the business.

NAB research suggests that TLS' underlying earnings currently generate a dividend of around 17cps compared to the forecast FY18 dividend of 22cps. However, the NBN Co is committed to paying TLS annual compensation payments that partly offset the fall in earnings resulting from the NBN, hence TLS' current dividend can probably be maintained for the next couple of years. But once these payments conclude around FY20, TLS is unlikely to be able to sustain its current dividend payments.

In its earnings report, TLS attempted to securitise these NBN payments to generate income growth but this plan was blocked by NBN Co. So, the job is for TLS management to find other avenues of material earnings growth over the next few years.

Elsewhere, whilst upbeat guidance was delivered by companies such as Qantas Airways and Flight Centre, the overriding theme amongst managements' forward-looking commentary was one of ongoing caution.

The people that manage these companies (who are all on huge salaries), need to start justifying those salaries (in my opinion) with sensible and progressive decisions that will boost the value of their companies, and as a result, boost the value to all shareholders and superannuation investors.

Mortgage fraud: \$500b of 'liar loans' in Australia, warns investment bank UBS:

Up to a third of Australian mortgages could be "liar loans" based on factually inaccurate information, investment bank UBS has warned.

The UBS report found that from the latest detailed survey of more than 900 people who took out a home loan in 2017 - only 67% responded that their mortgage was "completely factual and accurate", down from 72% of 2016 borrowers.

The vast majority of the mistruths appear to be white lies rather than total porkies, with a quarter of 2017 survey respondents saying their loan application was "mostly factual and accurate". Only 8% admitted to their information being only "partially factual and accurate", and 1% refused to say.

If anything, UBS believes its survey would understate the prevalence of mortgage misrepresentations as some people would be nervous about admitting it, even anonymously.

Given the average turnover of home loans in Australia, UBS has estimated that around \$500 billion worth of outstanding home loans contain misstatements about incomes, assets, existing debts and/or expenses.

With just under \$1.7 trillion of mortgage debt outstanding, that means home loans based on inaccurate or fraudulent information account for 29% of the total, and 18% of all private sector debt in Australia.

The most common "lie" was understating living costs (30%), while understating other debts or overstating income or assets each accounted for around 15% of misrepresentations.

Given that the average scale of the misstatement across income, expenses, assets and living expenses was between 10-12%, UBS has warned that it makes Australia's banks even more vulnerable to a housing downturn than most people think.

"This survey suggests many people have come to take house price inflation as a given and are prepared to be factually inaccurate on their mortgage application to ensure they get access to housing leverage," UBS warned in the report.

It argued that more needs to be done by the banks to verify loan applications, starting with a requirement to see lodged tax returns. (I agree).

Joke Corner:

Two hunters are out in the woods when one of them collapses. He doesn't seem to be breathing and his eyes are glazed. The other guy rushes over to him, takes out his phone and dials triple zero.

He shouts into the phone: "My friend has collapsed, I think he is dead! What can I do? Help me please!"

The operator says: "Calm down, calm down, I can help you, it will be OK. But, first, let's make sure he's dead." There is a silence, then a gunshot is heard.

Back on the phone, the guy says: "OK, now what?"... (you know you want to laugh)!!!!

REVIEWS / Tax Office SCAM:

We have been conducting Annual Reviews over the past 3 months – which are an important part of keeping your financial house in order. If you are still to catch up, please let us know and we will organise a suitable time.

Also, we have had a number of people receive the "SCAM" phone call purportedly from the Australian Tax Office (ATO), demanding a payment to finalise a default and even threatening JAIL!

Don't EVER be mistaken – the ATO will NEVER ring you with this sort of request. As I always say – JUST HANG UP. (It is not impolite to do so).

Finally, until next time – keep safe.

Tony

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