GFM Wealth Advisory

TRADE SECRETS

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SMSF Specialists | Investment Management | Financial Planning | Accounting

IN THIS ISSUE

- 2022 Federal Budget
- Client Profile – Kevin & Vivienne Campagnolo – Clients Of GFM Since 2007
- Australia's Top 100 Financial Advisers 2022
- Staff Profile – Introducing Amelia Paullo
- Industry Super Fund Valuations
- Quarterly Business Lunch – Fund Manager Panel – An Update On Markets
- Home Care Packages
- What Do China's Challenges Mean For Australia?
- Changes To Social Security Payments And Thresholds

2022 FEDERAL BUDGET

By Patrick Malcolm

On Tuesday, 25 October, Treasurer Jim Chalmers handed down the second Federal Budget for 2022, which was eagerly awaited given the change of government.

As expected, there was a focus on measures to deal with inflation and the cost of living. For now, the upcoming 1 July 2024 legislated personal income tax cuts have been left alone, and an array of savings were announced. While there was speculation on changes to superannuation (including a potential $5m cap), no new measures were announced.

The Treasurer detailed the current state of the economy, provisions for natural disasters, a plan to boost housing supply and a near $33 billion increase in social security payments.

Some of the key numbers announced include:

- A deficit of $36.9 billion for 2022-23
- GDP growth of 3.25% for 2022-23
- Inflation to peak at 7.75% in late 2022
- Unemployment is expected to rise to 4.5% in 2023-24
- Electricity prices are expected to increase by an average of 20% nationally in late 2022 and a further 30% in 2023-24

Superannuation

The government will allow more people to make downsizer contributions to their superannuation by reducing the minimum eligibility age from 60 to 55. The measure will have effect from the start of the first quarter after the Royal Assent of the enabling legislation. The downsizer contribution allows people to make a one-off post-tax contribution to their superannuation of up to $300,000 per person from house sale proceeds. Both members of a couple can contribute, and the contributions do not count towards non-concessional contribution caps.

Tax

As expected, the government has not made any changes to the stage three tax cuts that were previously legislated. From July 2024, stage three abolishes the 37% marginal tax bracket completely and lowers the 32.5% marginal tax rate to 30%. It also raises the threshold for the 45% marginal tax rate, meaning everyone earning between $45,000 and $200,000 will pay the same 30% tax rate.

Small business

The government is providing $15.1 million to extend the tailored small business mental health and financial counselling programs, NewAccess for Small Business Owners and the Small Business Debt Helpline.

Housing Accord

A new national Housing Accord has been established. The Accord sets an aspirational target of one million new ,well-located homes to be delivered over five years from mid-2024 as capacity constraints are expected to ease. Under the Accord, the government will provide $350 million over five years, with ongoing availability payments over the longer term, to deliver an additional 10,000 affordable dwellings.

Energy Policy

The $224.3 million Community Batteries for Household Solar Program will assist up to 100,000 households in reducing their power bills by delivering up to 400 community batteries to store excess solar energy. The government is also providing $102.2 million for the Community Solar Banks program to help up to 25,000 households access solar-powered energy.

Health

Total funding for the National Disability Insurance Scheme (NDIS) will reach $166.6 billion over four years, an increase of $8.8 billion. This will ensure funding for expected growth in participants' plans.

As an immediate action, the government will invest $158.2 million for an additional 380 permanent staff for the National Disability Insurance Agency. This will support Australians with a disability to access NDIS funding faster and more efficiently.

Aged Care

The government is funding more care for older Australians. By providing $2.5 billion over four years, the government aims to increase average care minutes per resident and mandate that facilities have a registered nurse on-site 24/7.

Education

The government is delivering 480,000 fee-free TAFE and community-based vocational education places over four years. As a first step, the government is entering a $1 billion agreement with the states and territories to provide 180,000 places in 2023.

This agreement will prioritise training for students who traditionally face work and study barriers.

Expanding Paid Parental Leave

The government is investing $531.6 million over four years from 2022-23 to expand the Paid Parental Leave scheme and provide greater support to families. In 2026, families can access up to 26 weeks of Paid Parental Leave.

KEVIN & VIVIENNE CAMPAGNOLO: CLIENTS OF GFM SINCE 2007

By James Malliaros

Vivienne has kindly written the article below on their working life, family, retirement and relationship with GFM Wealth Advisory. We greatly appreciate their contribution to Trade Secrets.

Kevin grew up in Wonthaggi, born there in 1951 to Italian migrants. He joined the State Bank of Victoria on December 11 1967, and continued for the next 35 years (even when it became part of the Commonwealth Bank), his last position being a manager at the Kilsyth branch. Following this, Kevin has continued to work various jobs in banking, security and retail. He still likes to work a couple of days a week helping his friend with the 'Mandel' Aboriginal Art Gallery in Fairfield.

I was born in 1954 and grew up in Ivanhoe with my three sisters. We moved to live on a farm in Wallan in 1969, which was my father's dream, but unfortunately, he passed away three years later when I was 17. My mother, my younger sister Kaye and I then moved to Bundoora. I attended Coburg Teachers College and became a teacher from 1975 until 2016. I worked across several schools in the Northern region, finishing as a leading teacher at Lalor North Primary.

Kevin and I met in 1974 and married in 1977. Our first home was in Yallambie for seven years, then Eltham for the past 38 years. Our children, Lori and Simon, grew up in Eltham, and we love how it has a real community feel. I also taught at Eltham Primary for 11 years during my career.

Retirement has brought so many pleasures. I love looking after our grandchildren, attending Banyule Boomers exercise classes with my friends and the general feeling of being able to slow down in life. I'm also a member of the Eltham Evening View Club, which is a great way to socialise with other women but also provides meaning by raising funds for The Smith Family and supporting the educational needs of disadvantaged children.

Kevin and I have enjoyed travelling over the years and have been on wonderful trips and cruises across Europe, the USA, Canada and Asia. We have especially enjoyed visiting his family's hometown of Marostica in Northern Italy. It is a beautiful, old-walled town that sits at the base of the Dolomites. Of course, the pandemic prevented travel for the past couple of years, but we hope to travel overseas again in 2023.

Kevin and I have been clients of GFM Wealth Advisory since August 2007, after my sister and brother-in-law, Kaye and Robert Adams, introduced us to the company. We felt we needed professional help with our financial situation at that stage of our life, before retirement. Our initial meeting was with Tony Gilham and James Malliaros. We had no hesitation from the outset as we were impressed with their interest and knowledge from the beginning, and thus our self-managed super fund was created. James remains our advisor, and we look forward to regular meetings with him. He is always knowledgeable and proactive about our portfolio, with recommendations to change or improve our investments, and we always take his advice. We appreciate his guidance and have been very happy with the returns. James feels more than just a financial advisor; he has always shown such support and friendship to us, especially during difficult personal times.

In all our dealings with various staff members, we have always found them friendly, professional and efficient. We now like that we can solve all our financial needs by using GFM Gruchy Accounting to complete our tax returns, and Ivan Yeung has been most helpful to us in this area. Overall, we would recommend GFM for their very professional and knowledgeable care of our financial needs, and we look forward to our continuing relationship with James and the whole team.

AUSTRALIA'S TOP 100 FINANCIAL ADVISERS 2022

By Mai Davies

We are thrilled to announce that our Managing Partner, Paul Nicol, has again made the prestigious list of Australia's Top 100 Financial Advisers. The list was published on Friday, September 23, in "The Australian" in "The Deal" magazine, produced in conjunction with respected US financial investment publication Barron's.

Positioning in this year's Top 100 list was again very competitive, including larger firms, many of whom run multi-office practices.

Paul is ranked 48 and has now been featured in the six years this prestigious list has been published.

Our business is a team effort, and is a strong recognition of all staff. This industry endorsement of GFM Wealth acknowledges the transparent and professional approach that underpins the way we do business. As a privately owned firm with no institutional alignment, our advice always has and will continue to be a client-centric approach, putting the best interests of our clients first.

We are incredibly proud of Paul and thrilled that he has been featured on the list for six years in a row.

Congratulations Paul!

STAFF PROFILE: INTRODUCING AMELIA PAULLO

By Paul Nicol

With great pleasure, we introduce a new team member, Amelia Paullo.

Before joining GFM in May this year, Amelia worked as a Financial Planner for over seven years for a large Australian wealth advisory firm in Melbourne and Canberra.

Amelia has advised high-net-worth individuals and families, specialising in investment advice and strategic asset allocation primarily for SMSF portfolios. Amelia's background in the investment field and her extensive experience with retirement planning, wealth creation and risk management provide a solid foundation for her role as a Financial Planner.

Here's a quick Q and A with Amelia:

Q. Your family?

I have been married to my husband Richard for 12 years, and we have two wonderful kids, Raphy and Alicia.

Q. Favourite holiday destination?

Since I migrated to Australia 13 years ago, every time I have a chance to take a holiday, I like going back to my home country Peru to visit my family and also travel around South America. I am lucky that Machu Picchu is only 4 hours away from the small village where my parents live in the Secret Valley.

Q. Hobbies?

I enjoy going to the gym and spending time outdoors with my family. On the weekends, we usually explore new parks and ride our bikes. I also love cooking and Latin dance.

Q. Favourite food/drink?

That is a tricky question! I love trying new cuisines and feel privileged to have so much variety here in Melbourne. But if I only had to pick one, I would say Peruvian Ceviche, made from fresh raw fish cured in lime juice with chilli. And, of course, a Pisco Sour!

Q. Your proudest moment?

Apart from becoming a mum (twice), I would say that graduating from university after studying and working full-time to pay my tuition fees was one of my proudest moments.

Q. What sports do you follow?

Soccer when there is a World Cup, and although I don't follow AFL very closely, I support my family's team Geelong (especially when we are in the finals).

Q. The best part of working at GFM?

We have a fantastic team here at GFM. Since my first day, I have felt welcomed and supported. I feel lucky to be part of such a great, intelligent and caring group of people. I've also enjoyed getting to know our clients and look forward to meeting many more over the coming years.

INDUSTRY SUPER FUND VALUATIONS

By Patrick Malcolm

The superannuation regulator's (the Australian Prudential Regulation Authority, or APRA) recent commitment to update "SPG531 – Valuation" cannot come quick enough.

Many industry superannuation funds have embraced the use of unlisted assets. According to Association of Superannuation Funds statistics, MySuper funds hold (on average) over 20% of assets in unlisted assets such as property, infrastructure, and private equity.

APRA wrote a letter to all superannuation trustees in July revealing the findings of its unlisted asset valuation review. It said this "highlighted the need for considerable improvement in industry approaches to valuations and the need to conduct valuations proactively and regularly". Consequently, many super fund financial year-end performance figures have been met with suspicion.

Despite the controversy generated by its unlisted asset exposure, a large industry super fund has recently flagged investments in a range of new private equity and infrastructure opportunities. In April 2020, Senator Andrew Bragg blasted superannuation funds, which may have sunk too deep into illiquid assets, calling it a "sign of bad management and poor investment governance".

APRA has expectations of a robust valuation governance framework, and it has plans to issue guidance covering four key issues:

- Valuation governance, "including the use of independent experts; segregation of investment decision-makers and valuers; the development of a valuation methodology; and the use of standalone board subcommittees and board reporting";
- Valuation methodology, "including sources of valuations and their hierarchies, valuation approaches and methodologies, and the use of assumptions and estimates in valuations, independent assurances and triggers for interim valuations";
- Frequency and monitoring, "including how an appropriate frequency for valuing assets would be determined, with an expectation that this would generally be at least quarterly, and how the sequencing of valuations would be managed across different asset types"; and
- Valuation risk, "including a comprehensive list of the types of valuation risk APRA expects prudent RSE (registrable superannuation entity) licensees would consider".

The industry has come a long way, and many funds have clear valuation policies. However, the valuation debate around unlisted assets continues to rage, and APRA didn't undertake their review for nothing.

Another issue is the increased costs borne by industry super funds members with the shift away from the vanilla asset classes such as shares and fixed income to unlisted property, infrastructure, and private equity. This was brought home in August when a large industry super fund said its investment fees had risen by up to 45 per cent in the year to June 30.

The following is an example of one investment held by Australian super funds that has become the subject of recent valuation controversy.

Canva is an Australian start-up success story, an Australian graphic design platform used to create social media graphics, presentations, posters, documents and other visual content.

T. Rowe Price, a global investment management firm, wrote down its investment in Canva by 30 per cent in August. It is the second markdown of Canva by T. Rowe Price, which in May wrote down the investment by 20 per cent. The latest valuation means it has written down Canva by 44 per cent since the end of 2021. Canva hit a peak valuation of $US40 billion in September last year, but since then, funds globally have marked down their investments.

Canva's current valuation of $US25.6 billion still seems extraordinary compared to other internet design platforms. Canva is valued at about 17 times revenue. This assumes annual revenue is about $US1.5 billion; it hit $US1 billion last year. Adobe trades about nine times its revenue, and ArtSpark about four times. Adobe is an example of the collapse of tech valuations in public markets. Its shares have fallen by 54 per cent, taking its market capitalisation to $US137 billion. The decline in Adobe shares accelerated in October after a $US20 billion takeover of Figma, a collaborative design platform, was announced. Adobe said the deal was transformative and that the new entity would "reimagine the future of creativity and productivity". However, Adobe's share price has fallen considerably since the announcement.

This write-down has called into question the valuations of Australian super funds holding Canva.

It is reassuring that APRA is questioning a handful of super funds about their valuation of Canva. It was confirmed in the Australian Financial Review in early October that APRA had written to a group of funds with stakes in Canva. APRA's letter included questions about the methodologies used by the funds with significant exposure to Canva.

The news is reassuring because it shows that APRA takes its obligations seriously to ensure equity between members departing and joining funds with daily unit pricing, thereby protecting members. At the same time, it raises questions about the integrity of performance figures posted by some funds for the year to June 30. It has been claimed that it was misleading to use the March 2022 valuations of Canva on June 30.

In those funds, it could encourage members to sell and buy back after valuations have been written down if this became widely known. This could lead to some funds being forced to sell assets to cover redemptions, which would concern APRA.

However, whether the write-down of Canva is precisely correct isn't the point. The point is it was transparently disclosed. But in the United States, there isn't a choice under Securities and Exchange Commission (SEC) regulations. Revealing holdings and valuations is the law; it isn't just good governance. Portfolio Holdings Disclosure for unlisted assets at the security level isn't required in Australia.

There seem to be many against increasing levels of transparency, but it would go a long way to solving the suspicion around valuations of unlisted assets. It's good enough for the large listed real estate investment trusts. The Scentre Group, which is a shopping centre company with retail destinations operating under the Westfield brand in Australia and New Zealand, as an example, clearly publishes Westfield Bondi Junction's valuation.

No valuation is perfect. However, we all know that the listed equity market is at least transparent and applies the same price consistently across market participants.

APRA is yet to be as strong in its supervision as in the United States via the SEC, which enforces mark-to-market rules on all "crossover funds" (a fund with both listed and unlisted assets) that offer daily pricing. The rules explain such events as the Tiger hedge fund writing down its portfolio by $US15 billion earlier this year. Tiger Global is an investment firm focused on public and private companies in the global Internet, software, consumer, and financial technology industries.

There would not be many industry super fund members venturing to check valuations. However, given the heavy concentration of unlisted assets in industry funds, the focus on unlisted assets is understandable.

QUARTERLY BUSINESS LUNCH: FUND MANAGER PANEL – AN UPDATE ON MARKETS

By Mai Davies

At GFM Wealth, we are delighted that we have been able to return to holding face-to-face events in 2022.

On Monday, October 17 2022, we held our Quarterly Business Lunch at Leonda By The Yarra. The event was extremely popular, with over 150 clients, along with their family, friends & colleagues, joining us to hear from a panel of Australia's finest fund managers:

- Mary Manning - Global Portfolio Manager at Alphinity
- Jack Collopy - Portfolio Manager at Perpetual
- Nick Griffin - Founding Partner & Chief Investment Officer at Munro Investment Partners

Mary, Jack and Nick have an abundance of experience and knowledge in investment markets. They provided an update on the current domestic and global economy and discussed what's happening in investment markets in a Q&A Forum.

The attendees appreciated the opportunity to attend such an interesting and insightful presentation.

Click on the link to view the presentation

https://www.gfmwealth.com.au/blog/quarterly-business-lunch-2022-fund-manager-panel-an-update-on-markets/

HOME CARE PACKAGES

By Sam Eley

Our February 2022 Trade Secrets detailed the different Home Care Packages (HCP) available to those requiring additional support at home.

We have provided some examples below:

EXAMPLE – SINGLE RETIRED AGE PENSIONER

Wendy is an 89–year–old widow who receives a full Age Pension. She owns her own home and has $230,000 in an Account–Based Pension, and she requires $40,000 p.a. to fund her lifestyle.

Wendy suffers from many health issues that prevent her from being able to look after herself without assistance. She has been assessed and allocated a Level 4 Home Care Package that provides a daily government subsidy of $145.94 ($53,268.10 per annum).

She must pay a basic daily fee of $11.71 per day towards her cost of care, an annual cost of $4,274.15. Therefore, her total Home Care Package is $53,268.10 + $4,274.15 = $57,542.25, which can be utilised to provide additional care and support at home.

Wendy receives a full Age Pension of $1,026.50 per fortnight ($26,689 p.a.). She then draws a regular payment of $1,200 p/m from her Account–Based Pension to meet her annual cost of living requirements.

EXAMPLE – MARRIED SELF–FUNDED RETIREE COUPLE

Barbara and Roger are 83 years old. They have saved well for their retirement and receive a regular income of $90,000 p.a. from their various investments. Their goal is to remain in their home for as long as possible. However, Barbara recently suffered a fall at home that jeopardised her movement and ability to care for herself, and Roger has cancer. They are at a stage where they require assistance around the home, and their care and service needs may increase over time.

They have each applied for Home Care Packages through Services Australia, and an assessor visited their home. Barbara has been granted a Level 2 package of $16,147.60 p.a., and Roger has a Level 3 package of $35,138.55 p.a. They have gone through the list of local providers and selected an appropriate service. The service provider's costs will be deducted from their home care package until the package amount is exhausted.

Barbara and Roger are financially secure in retirement and earn an income well above the Age Pension. They must fund the basic daily fee of $11.09 (Barbara) and $11.40 (Roger). This equates to an annual expense of $4,047.85 (Barbara) and $4,161.00 (Roger).

In addition, given they are not receiving a full Age Pension, they must pay an Income Tested Fee towards their care costs. As their income exceeds the $44,605.60 p.a. threshold, they fall into the second cap category for the Income Tested Fee. This requires them to each pay $33.59 per day towards their cost of care.

In summary, their outgoings will be:

- $4,047.85 + $4,161.00 basic daily fees, or $8,208.85 per annum.
- $12,260.35 each in income–tested fees, or $24,520.70 per annum.
- Total Home Care Package for Barbara is $4,047.85 + $16,147.60 – $12,260.35 = $7,935.10
- Total Home Care Package for Roger is $4,161.00 + $35,138.55 – $12,260.35 = $27,039.20

Ensuring you receive the proper support to age independently at home is crucial. It's equally important to understand the financial implications and clarify your ability to fund the cost of care over the long term.

WHAT DO CHINA'S CHALLENGES MEAN FOR AUSTRALIA?

By Amelia Paullo

For decades now, the rise of China, to many onlookers, has been nothing short of an economic miracle with an export and construction-driven economy that has lifted hundreds of millions of ordinary citizens out of poverty.

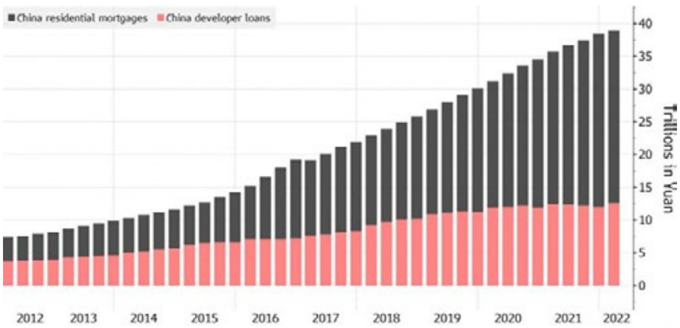
Ever since the emergence of the coronavirus, things have taken a turn for the worse in China. Although Wuhan was the first city to record cases of COVID, China seems stuck in an endless series of lockdowns while the rest of the world has largely moved on.

Recently re-elected, China's leader Xi Jinping has required the country to follow a strict zero-COVID policy and placed its people and economy under enormous strain to maintain it. Unfortunately, China's inferior vaccine requires three doses before it is highly effective, and its low vaccination rate among the elderly is not changing fast enough.

China's COVID-related lockdowns have amplified many issues within the Chinese economy, which have been creeping up over the years. China's real estate sector is among the most crucial sectors of the Chinese economy, and it accounts for 29% of Gross Domestic Product (GDP) and close to 40% of total bank loans. There is currently a significant oversupply of residential property, sky-high property prices and millions of semi-complete apartment buildings that cash-strapped developers are struggling to complete. Many of the country's top property developers require bailouts to finish their pipelines. Some citizens who have purchased properties off the plan refuse to make mortgage repayments on their loans until construction begins again, in a rare act of defiance.

Economists predict that even if the Chinese Government does bail out the property developers to have current projects completed, that will not solve the issue of inflated property prices, a very high level of mortgage-related private debt, and a rapidly ageing population. China's private debt has reached almost 40 trillion yuan (9 Trillion AUD), with residential mortgages and loans to property developers being the bank's most significant exposures.

Credit Boom: China's bank loans to the property sector ballooned over the years



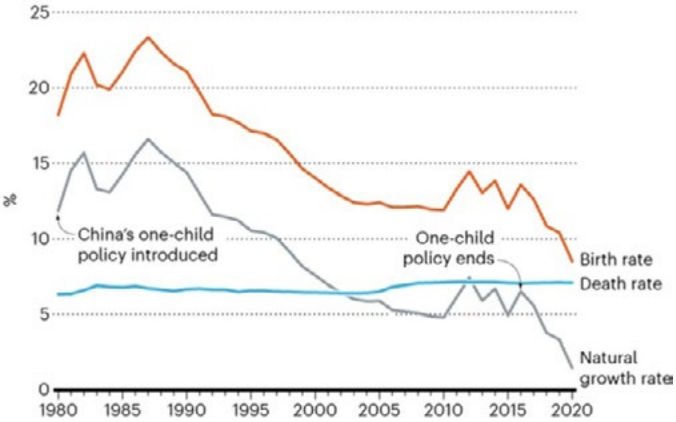
Source: Bloomberg. People's Bank of China, August 2022

For decades the Chinese Communist Party has strictly enforced China's one-child policy to reduce population growth and improve economic prosperity. For many years this has increased the percentage of China's working-age population, stimulating economic growth. However, just like Japan's population did decades ago, China's working-age population has recently peaked and is in decline.

China's one-child policy has reshaped its population demographics such that in many families, there is one child with two parents and four grandparents. An inverted pyramid. Also, the desire to have sons has created a gender imbalance within society, with millions more men than women who may never be able to marry. Within China's population of 1.41 billion people, there are 34 million more men than women.

In 2022, China's birth rate declined for the fifth year to 7.5 births per thousand people. Australia's was 12.4 by comparison. Since the introduction of the one-child policy, the country's population growth rate declined from 2.5% in 1970 to just above 0% in 2022. The one-child policy did not end until 2016, and demographers believe it ended too late to reverse the country's crashing fertility rate. The birth rate has continued to fall even after the policy ended due to changing attitudes towards marriage and childbearing, with more women pursuing careers and starting families later than previous generations.

China's Population Growth Rate



Source: National Bureau of Statistics of China, December 2020

China's marriage rate has also been in a steady decline. Since its peak in 2013 at 9.9 marriages per thousand people, by 2021, it dropped down to 5.4. This is more bad news for China's property market and economic growth rate, as according to economist Andy Xie "Marriage is the only significant driver of demand for property in China. With about 7 billion square meters of residential property under construction and unsold, if every marriage leads to a property purchase and the number of marriages does not fall further, it would still take about ten years to digest the inventory. Given that both assumptions are wildly optimistic and that land banks will only add to the inventory, it will be a long slog before the market returns to stability. The property industry is becoming a zombie, and so are many local governments."

China's population will age rapidly over the next 10-20 years. The number of people in their 60s is expected to grow from 18% to over 30%. If current trends continue, China's population is expected to peak at 1.44 billion in 2029 before entering an "unstoppable" decline, according to a Chinese Academy of Social Sciences study released in January 2019. The country will enter an "era of negative population growth," the report says, warning that by 2065 numbers will return to the levels of the mid-1990s. Fewer people mean less domestic consumption, thus rapidly slowing economic growth. The ratio of young to old will be dramatically imbalanced by the rising ranks of the elderly, putting unprecedented weight on the ties that hold society together.

So what does all of this mean for Australia? Australia has long been the beneficiary of China's rise, with approximately 40% of Australian exports now being purchased by China. Australia's largest export by far is iron ore which is used for steel production, and approximately 30% of steel production in China is used for residential development. It is hard to see how China will be able to maintain the same level of iron ore consumption with such a long-term downturn in their property market ahead. China currently imports 80% of its iron ore despite also being the world's 3rd largest producer, with 60% of that imported from Australia.

In its June 2022 quarterly report, the department of Industry, Science and Resources forecasted a steady decline in the price of iron ore over the next couple of years.

China has set a goal of increasing its iron ore self-sufficiency. This includes plans to increase domestic production, use more scrap steel, and invest in iron ore mines in other regions, such as Africa, to reduce its dependence on Australia and lower prices. China's recent efforts to punish Australia have not yet been effective. China's dependence on Australian ore has made up for the other commodities and products, such as coal and wine, that the Chinese have refused to purchase. However, Australia should not become complacent and expect the situation to remain the same. Australia has also grown to rely on China for tourism, education and foreign investment. It remains to be seen whether Chinese tourists and international students will flock to Australia as they did before the pandemic.

Although trade with China has supercharged the Australian economy in previous years, further diversification with other trading partners would be wise to safeguard our economy's resilience and national prosperity.

CHANGES TO SOCIAL SECURITY PAYMENTS AND THRESHOLDS

By James Malliaros

Recent changes have occurred to several Centrelink thresholds and payments, with many of these taking effect from September 20.

As these changes will affect many of our clients, we thought that it was an opportunity to provide a summary of the main changes:

Increase in the Age Pension

Despite the growth in superannuation over the past three decades, the Age Pension is still a significant source of income for most Australian retirees. According to a Rice Warner survey, roughly 39% of Australians of Age Pension age receive the full Age Pension, and 24% receive a part pension.

The Age Pension received its most significant boost in 12 years when the second of the twice-yearly reviews (March and September) took effect on September 20. Along with the Disability Support Pension and Carer Payment, the Age Pension rose by $38.90 a fortnight for singles and $58.80 ($29.40 per person) for couples.

The payment for a full Age Pension for Australian residents for the period September 20 2022, to March 19 2023, is now:

- Single: $1,026.50 per fortnight (approximately $26,689 per year)
- Couple (each): $773.80 per fortnight (approximately $20,119 per year)
- Couple (combined): $1,547.60 per fortnight (approximately $40,238 per year)
- Couples separated due to illness each receive the Single rate, which combined is $2,053.00 (approximately $53,378 per year)

These payments will next potentially change on March 20 2023. An increase is likely but not guaranteed because the Australian Bureau of Statistics evaluates these increases based on changes in the Consumer Price Index (CPI), Male Total Average Weekly Earnings and the Pensioner and Beneficiary Living Cost Index. For example, in September 2020, the Age Pension rates did not increase, although that was for the first time since 1997.

Proposals to assist working-age pensioners

Along with an increase in the payment rate of the Age Pension, the Government has also proposed changes to assist Age Pensioners who work, to earn more and keep their Age Pension entitlement.

These changes include:

- A one-off $4,000 income credit will be added to the Work Bonus income bank of each Age Pensioner in December 2022. An Age Pensioner can earn up to $7,800 p.a. before their Age Pension reduces. This measure will allow Pensioners to earn up to $11,800 before their Pension reduces under the social security income test. The $4,000 income credit can be used only for this financial year and expires on June 30 2023.
- Those who lose their Age Pension will not have to reapply for up to two years if the loss occurs due to employment income exceeding the income limit. Currently, the Age Pension cancels after 12 weeks of exceeding the income limit.
- Age Pensioners can retain their Pensioner Concession Card and its associated benefits for two years.

These proposed measures, subject to the passage of legislation in Parliament, will allow older Australians who work part-time or who wish to take up work to keep more of their Age Pension. The measures will also assist in closing the gap in Australia's current labour and skills shortage.

Increase to Commonwealth Seniors Health Card income thresholds

On July 27 2022, the Government introduced legislation to increase the eligibility income thresholds for the Commonwealth Seniors Health Card (CSHC).

The CSHC income thresholds were proposed to increase from September 20. The Bill has passed the House of Representatives. It was introduced into the Senate on September 5, 2022, but has not yet been passed. The intention was for the increase to take effect from September 20 2022, but now its commencement date will be after the Bill receives Royal Assent.

The thresholds are proposed to increase as follows:

Family situation	Current threshold	Proposed threshold
Single	$57,761	$90,000
Couple (combined)	$92,416	$144,000
Illness separated couple (combined)	$115,522	$180,000

The increase for each child is unchanged at $639.60.

Deeming rate freeze confirmed

On July 1 2022, the Government confirmed freezing deeming rates for two years until June 30 2024.

This measure, which was announced as one of this year's Federal Election policies, may benefit:

- Income-tested pension and allowance recipients who would otherwise have had a reduced entitlement
- Commonwealth Senior Health Card holders who have an account-based income stream subject to deeming as part of their adjusted taxable income
- Low Income Health Care Card holders who may have otherwise lost their entitlement to the card, and
- Aged care recipients, as certain income is determined by deeming rates which may have resulted in higher assessable income leading to an increase in means-tested fees.

In addition, the deeming threshold was indexed on July 1 2022. This may be indexed in future years and benefit income-tested pension and allowance recipients even greater.

The current deeming rates and thresholds are shown in the table below:

Deeming rate	Single	Couple (includes illness separated)
0.25%	First $56,400	First $93,600
2.25%	Above $56,400	Above $93,600

Social security home proceeds exemption changes

On September 7 2022, the Government introduced legislation to extend the existing assets test exemption that applies to proceeds from the sale of the principal home from 12 months to 24 months.

While an exemption does not apply under the income test, an additional change to the application of the deeming rules will apply to the exempt proceeds.

The changes are proposed to commence on January 1 2023. However, if legislation has not received Royal Assent before that date, the commencement date will be one month after Royal Assent is received. The proposal will apply to eligible sale proceeds, even where a property was sold before the commencement date.

The proposed changes also include the following:

Extending the home proceeds exemption

An assets test exemption may apply to proceeds from the sale of a principal home. The exemption applies to the portion of those proceeds intended to be used to purchase, build, rebuild, repair or renovate a new principal home.

It is important to note that the exemption only extends to the amount that is intended to be used for this purpose. For example, if a client is downsizing and only 75% of the home proceeds will be utilised for the new home, the assets test exemption is limited to this amount.

Lower deeming rate

If the exempt proceeds are held in a financial investment, such as a bank account, the proceeds are subject to deeming under the income test.

The proposals also ensure that the exempt proceeds are deemed at the lower deeming rate (currently 0.25%). These exempt sales proceeds would be isolated from other financial assets, which will continue to benefit from the lower rate up to the threshold (currently $56,400 for singles and $93,600 for couples).

The lower deeming rates and isolation apply only during the exemption period. Once the exemption has ceased, the proceeds form part of the pool of all financial investments, and normal deeming applies.

Discretion by Centrelink to extend further

As is currently the case, it will be possible to have the assets test exemption period extended for an additional 12 months if certain criteria are satisfied. This extension is at the discretion of Centrelink and exists under the current rules allowing up to 24 months. This means, under the proposal, the exemption could be extended to a total of 36 months.

The criteria used to grant an extension will be unchanged and requires the client to continue to have the intention to purchase a new principal home and:

- have made reasonable attempts to purchase, build, rebuild, repair or renovate their new home
- have made attempts within a reasonable period after selling the principal home, and
- any delays experienced are beyond their control.

All the criteria must be met to be considered for the additional 12-month extension.

Stop Press - Suspension of Parliament and impact on legislation

The recent 15-day suspension of Parliament following the death of Her Majesty Queen Elizabeth II may impact pieces of legislation that have been proposed to come into effect from September 20.

These include:

- increase to the Commonwealth Seniors Health Card (CSHC) income thresholds, and
- reduction of the Downsizer contribution eligibility age from 60 to 55 (refer to the article in the June edition of Trade Secrets on how the Downsizer contribution works)

The next possible sitting days for both houses will likely be in October. Planned sitting days are already scheduled for 25 – 27 October, with the Federal Budget handed down on October 25. However, the Government may schedule additional sitting days, which is unknown now.