Podcast Transcript: Your retirement – money matters
Talent: Hank Jongen (General Manager) and Justin Bott (Financial Information Service Officer)

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Hank Jongen: G'day I'm Hank Jongen and I'm joined by FISO, or Financial Information Service Officer, Justin Bott. Welcome Justin.

Justin Bott: Thanks for having me.

Hank Jongen: Today we'll be discussing some key considerations people have when approaching retirement. These include borrowing money, gifting and lending money, winning money and inheritance and adding to your superannuation. So Justin, let's start with the topic of gifting and lending money.

Justin Bott: Now, they're different things and the department treats them differently. So a gift occurs when I give an asset to another person and I get less than the value in return. Now a classic example of that might be, I just help out my daughter with $100,000 for her mortgage so, I've given her $100,000, I've got nothing in return. But it could also occur when I sell my holiday home to my son for $200,000 less than market value. I've actually not got full value back and so I've gifted them the difference.

Now for the department, people will often say to me what does the department allow for gifting? And the actual answer is, there is no rules about what you can or can't do in that it's your money and you can do whatever you like with your money. But the department won't recognize everything that you've done. So the rules that the department operates under: a gifting is $10,000 in a single financial year but no more than $30,000 over a five year period. Anything that I gift over that amount, the department will actually say, is still mine. So if I gave $100,000 to my daughter my bank account will go down by $100,000. But the department will add back, if you like, a pretend bank account, it's not really there but we're going to hold it, of $90,000. And that $90,000 bank account is going to sit on my record affecting my rate of payment for five years. And what it means is, for pension purposes, for the rate of Age Pension that gifting of that $100,000 actually hasn't made much difference in the rate of age pension. I was at $100,000 before, I've got $90,000 afterwards. My rate of pension is pretty similar. What I've lost in gifting is not the pension but the interest that that $100,000 would have been able to generate, the income from that investment. That's what's gone as a part of gifting. So when a person is looking at gifting the conversation isn't what's it going to do to my rate of pension. The conversation is more can I afford not to have three thousand, five thousand, six thousand dollars' worth of interest. Because I've given up that income in order to look after the kids.

Hank Jongen: OK. And what about lending money. How is that treated?

Justin Bott: Lending is an arrangement where I'm going to hand over the money to the children with the expectation that that money is coming back. Now it's different from gifting because gifting, that money is gone on I'm never going to get it back. But with lending there's an expectation that the money's being returned. First thing is, it doesn't matter if you have an interest rate. Some people do interest-free loans for the kids. Other people put an interest rate on the children. A loan is a deemed financial asset which means it's got the interest rate that we say, which at the most is at 3.25%. So whether you get any interest from the kids or not, irrelevant. With a loan or that excess gift that we talked about, both of them are deemed at 3.25%. But the big difference between a loan and a gift is that a gift will only last for five years, whereas a loan will last for the life of the loan. So if I lend $100,000 to my daughter and it takes her 20 years to pay me back that loan, then that loan will stay on my record for 20 years and it will affect my pension eligibility for the next 20 years.

Hank Jongen: So the rate of repayment is almost irrelevant as well, except for the period of the loan itself.

Justin Bott: That's correct. So if they repay what you want to be doing is telling the department that you owe, or you've lent less and less money because as that child's been repaying the capital the amount that you are owing is being reduced and therefore that asset is gradually disappearing. But the interest that's charged is irrelevant. Whatever you decide, if you do or don't decide, again that's up to you. We're going to deem it regardless.

Hank Jongen: You mentioned deeming, what is deeming?

Justin Bott: Deeming is the way that the department determines income from what we call financial assets. Financial assets, bank accounts, shares, manage investments, loans, those excess gifts that we talked about. And it's an interest rate that we decree, deem, determine that you're receiving whether you're getting it or not. So if you like, it's like a universal leveller. It treats all of these financial assets exactly the same and in effect it takes Centrelink, or Human Services, out of the picture in deciding why I would choose a bank account over a share portfolio. Because if the department treats them both the same, then it makes no difference to us, or your rate of payment, which choice you make. And the way that it works is, there's this fixed interest rate, which is 1.75% for lower amounts of money, which is different if you're a single person or a member of a couple. But on the whole it's 3.25%. So we are saying that your bank accounts are getting 3.25%. And often people will turn to me and say, well, where can I find at the moment a bank account that's going to give me 3.25%. And the answer to that is, well you might not be able to. But deeming is not just about bank accounts. It's about all of these financial assets. So I might be able to find shares to give me a much better level of income and knowing that the department doesn't make a difference between the two, I've got to ask myself the question 'Is a bank account right for me, or should I be looking at a better income source from those other investments?' So it's a fixed rate of return, fixed across all those sorts of incomes determining the rate of payment that I might be receiving. Taking the department out of the picture. Letting the investment speak for themselves as to why you should choose one or the other.

Hank Jongen: Now, what about borrowing, a pensioner borrowing? Often that is a better alternative, of course, than taking out a formal loan and going into debt. Again, what considerations do you need to take into account there?

Justin Bott: So first thing is that when a pensioner goes and borrows money the department isn't actually worried about the vehicle or how they borrowed the money. We're not worried about where it's come from. What we're worried about is what you've done with it. So for example if I've borrowed $20,000 and I use that $20,000 to fix the house, the department doesn't worry about that $20,000 because it's going into the family home. The family home is an exempt asset, the money was received and then spent, it's not there anymore. But if I borrowed $100,000 to invest it, for example, then depending on how I borrowed that money, that's created a new asset. There's money there that's going to be on my record that wasn't there before. And my pension will now be potentially affected because there's new money, brand new. There's now an investment that didn't exist that's going to have a potential impact. So again, I'd be highly recommending if you're looking at, certainly at doing things like borrowing to invest or, which is another big one relating to the previous topic, borrowing to give to the kids or lend to the kids. They are big issues with lots of implications. Please, please make an appointment with the Financial Information Service before you get into that sort of arrangement. Let me tell you the guys at the pub, they don't know what they're talking about. All those people that say 'it will be fine with Centrelink' they do not know what they're talking about. Come and have a chat with a Financial Information Service Officer first so that you get the facts before you make the decisions.

Hank Jongen: Are there better ways to borrow money, are there any lenders that you recommend?

Justin Bott: Well, unfortunately, as part of the role of the Financial Information Service we're actually not allowed to recommend anything. Information, no advice or recommendations. Now in saying that, if I'm looking at borrowing large amounts of money then there's no easy method. There's no simple cheaper way I've just go to investigate best interest rates, investigate fees and all the things, that research that I need to do before I decide to borrow that money. However if I'm looking at smaller amounts for necessities, something that I need and I am in receipt of a Centrelink payment or concession card, then there are some other options that I might have that a lot of people might not know about.

Now the first one of those is called NILS, that's the No Interest Loan Scheme. And that is an arrangement where I can borrow up to one and a half thousand dollars and as it says I pay no interest on that loan. However there are catches, if you like, there are requirements. And the main one is that I can only borrow the money for very restricted purposes. For things like whitegoods, a fridge or something like that. But still, if I need a fridge and there's a one and a half thousand dollar low income no interest loan that I can use then that’s where I could go.

There's another one called Step up where I can borrow a larger amount but still only up to $3000. This one does have an interest rate but it, again, can only be used for very limited purposes so I just can't go and decide I'm going to invest in shares with it. I have to use it for things like looking after the family, whitegoods, those sorts of arrangements.

And separate to those there's another arrangement called SaverPlus where I am actually able to put money aside in a special account where that money will be matched, and only for the purpose of purchasing things for helping my education, so like a laptop. A way for me to be able to buy that laptop that much sooner. So what we recommend if you are interested in any of those arrangements, the best way to do is just go online, look at the Internet, you'll find those there and they'll tell you the terms and conditions and who's associated with them through that.

Hank Jongen: And look another question that's often asked is what happens when I win lotto, or the lottery, big winner at the pokies and linked to that, a major inheritance?

Justin Bott: Again, it’s a new asset. New money that I didn't have beforehand. So it will affect pension eligibility. Your obligation as a recipient of a payment is that you've got to notify us within 14 days that you've received that money. Now that's, in most cases that's 14 days of when, for example, as an inheritance the estate is actually distributed to me as a beneficiary. Not 14 days of my parents passing away wherever it might be. But I've got to tell the department within 14 days of receipt of that money and my payment will be affected because again there's a lump sum there. It's a new asset that wasn't there before. The one condition I’ll put on that is that every now and then you might get a lotto that's those ‘for the rest of your life’, you know $40,000 a year for the rest of your life. Now for the department purposes unlike $2million lump sum. That's actually a regular payment and a regular payment is treated as income. So those payments for life are actually creating an assessable income that will be added and affect your pension in that way rather than necessarily the asset that could be an impact from those other sorts of lottery payments.

Hank Jongen: I see. And again, as with all of these topics that we've talked about, it's important to let us know, isn’t it?

Justin Bott: Absolutely. Because, again, if I receive a large inheritance I might have lost my pension eligibility altogether. If I don't let the department know, then the department will get back to me and say ‘all those payments that you received, we need to get those payments back’. To avoid any debt issues, notify the department within 14 days and you'll be fine.

Hank Jongen: Superannuation. Now there's a wide ranging topic but what are some of the key points that people need to think about.

Justin Bott: The amount that you can put into superannuation is now at most $100,000 as a lump sum for what's called a non-concessional contribution. Now non-concessional contribution is when you're not claiming any tax advantage by putting that money into superannuation. I received an inheritance, I received a lotto payment and it's sitting in my bank account. It earned interest, that interest was taxed. I paid my tax bill. I put that into superannuation not claiming any special benefit and that's changed to now be $100,000 dollars that can go in per year for that. If I'm under 65 years of age I'm able to call on three years' worth of that $100,000 to put $300,000 in. But once I turn 65 it's still only $100,000 and I'm only allowed to put that money into super if I meet that work test requirement which is 40 hours in 30 days at any point in the financial year. So once I'm 65 I must work to put money into super.

Hank Jongen: This is yet another good reason to talk to a FISO isn't it?

Justin Bott: Absolutely. Super is a great investment, it's got a lot of advantages but you can't just assume that I can immediately put it in or that super is necessarily the right place for me. It's something that you do need to talk through. And the Financial Information Service can provide that free impartial information for you. Now the other side of the story is what they call a concessional contribution which is where I am claiming a tax concession by putting that money into superannuation. And that figure is $25,000. I can put in twenty five thousand dollars and claim a tax concession and in this case the tax concession is 15%. The money goes in at a tax rate of 15% rather than my normal marginal tax rate which might be 32%, 40%, whatever it might be. And so by injecting that money into superannuation as a concessional contribution I am on the whole paying less tax than I would otherwise be doing.

Hank Jongen: Justin thank you again for your time.

Justin Bott: Absolute pleasure.

Hank Jongen: Remember there are FISOs just like Justin in every state, and they're available by phone or appointment. For a list of FIS seminars in your local area, go to humanservices.gov.au/fis. Don't forget to 'like' and follow my official account and our new Seniors Update on Facebook and Twitter to keep up to date.

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