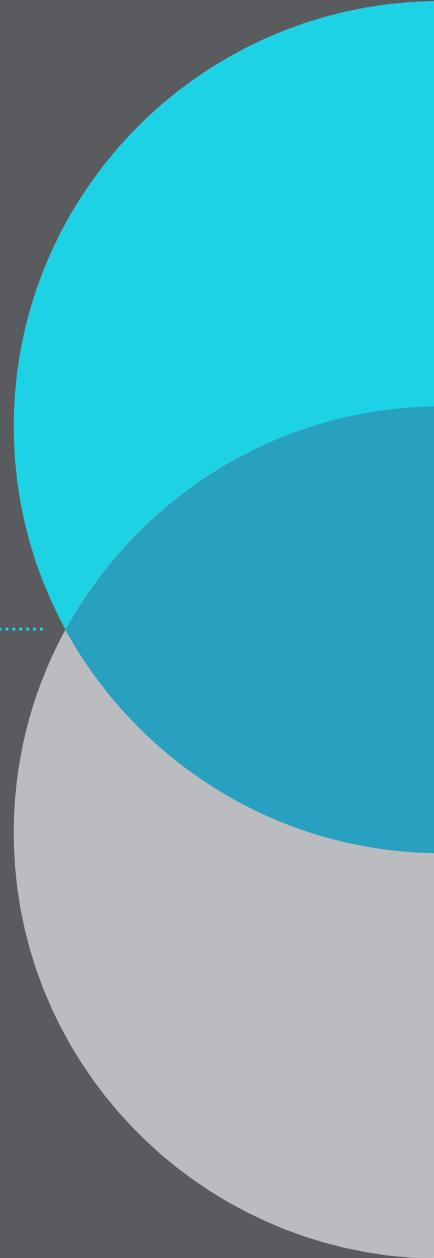




LOOKING UNDER THE HOOD

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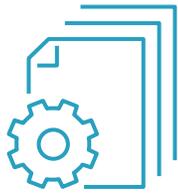
AGENDA

1. Indexation of the Transfer Balance Cap (“TBC”)
2. Home Equity Access Scheme (“HEAS”)



LEARNING OUTCOMES

By participating in this session, you will be able to:



Examine how indexation of the Transfer Balance Cap is applied and how it will affect clients

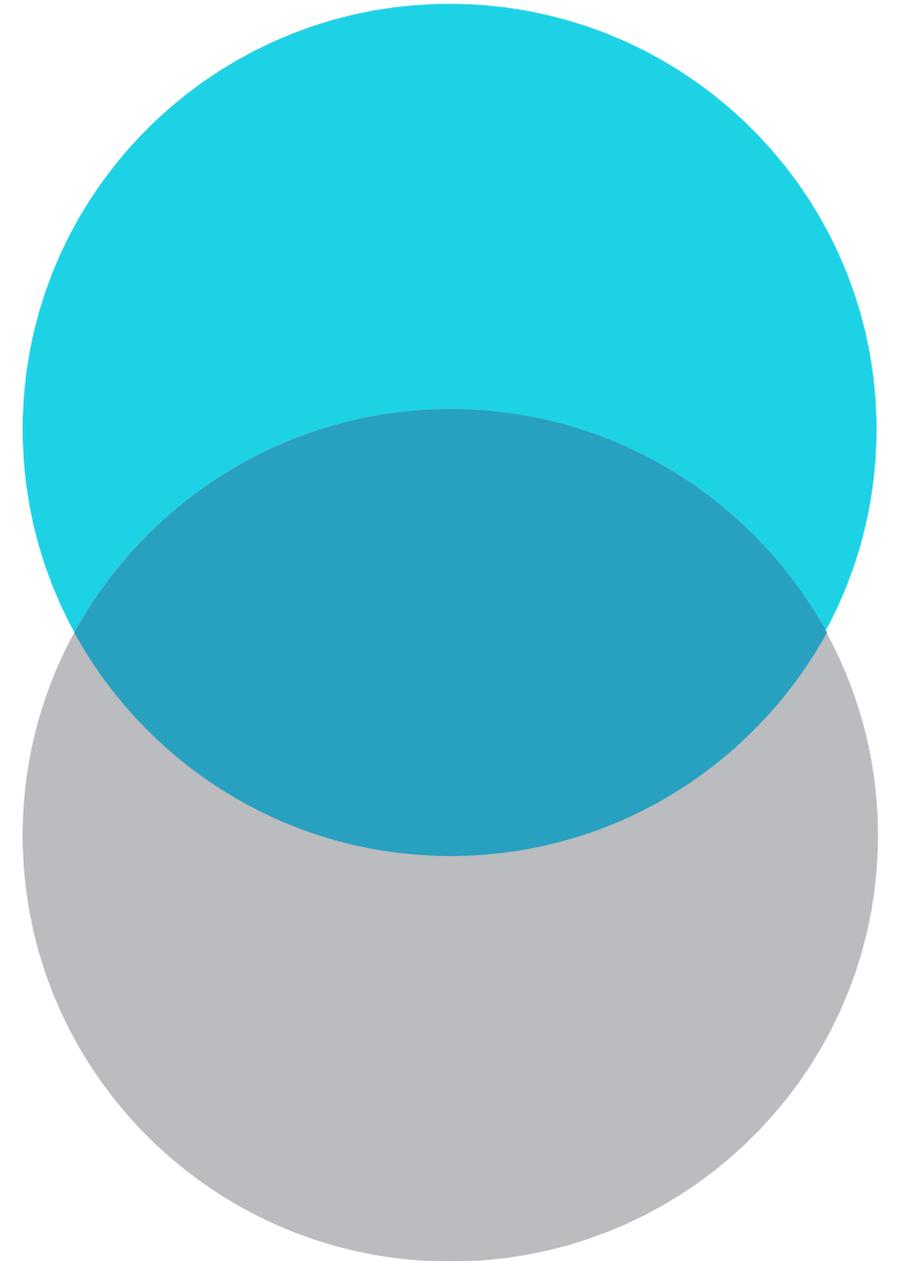


Gain insights into Centrelink's Home Equity Access Scheme



Apply the principles discussed in this session for your clients

INDEXATION OF THE TBC



WHAT IS THE TBC?

1. General TBC

- The maximum that can be transferred to the retirement (pension) phase of super for the first time
- Also influences eligibility to:
 - Make non-concessional contributions,
 - Access the three-year NCC bring forward
 - Receive the government co-contribution,
 - For a contributing spouse to receive the spouse contribution tax offset

2. Personal TBC

- Applies once-a pension commences to be paid for the first time.
- Dictates additional amounts that can be transferred to the pension phase.

INDEXATION - THE BASICS

Introduced on 1 July 2017
TBC \$1,600,000

Indexed in line with
All Groups CPI
\$100,000 increments

Personal TBC subject to
modified indexation

THE MATHS BEHIND GENERAL TBC INDEXATION

$$\frac{\text{Index number for the quarter ending 31 December just before the start of the relevant financial year}}{\text{Index number for the base quarter}}$$

$$\frac{\text{All Groups CPI @ 31 December 2022} = 130.8}{\text{All Groups CPI @ 31 December 2016} = 110.0} = 1.189$$

$$\$1,600,000 \times 1.189 = \cancel{\$1,902,400} \quad \mathbf{\$1,900,000}$$

Source: Income Tax Assessment Act 1997 s.960-285

INDEXATION OF THE PERSONAL TBC

1. Applies where a person has previously commenced a retirement phase pension
2. Indexation increase proportionate to the unused cap
3. Indexation is based on the highest amount ever counted towards the TBC

Example

Pension commenced pre 1 July 2021
TBC was \$1,600,000
Account balance at start was \$1,200,000

Indexation from 1 July 2021

Unused portion of TBC \$400,000 = 25%
Indexation from 1 July 2021 = 25% of \$100,000 = \$25,000
Indexed unused cap \$400,000 + \$25,000 = \$425,000

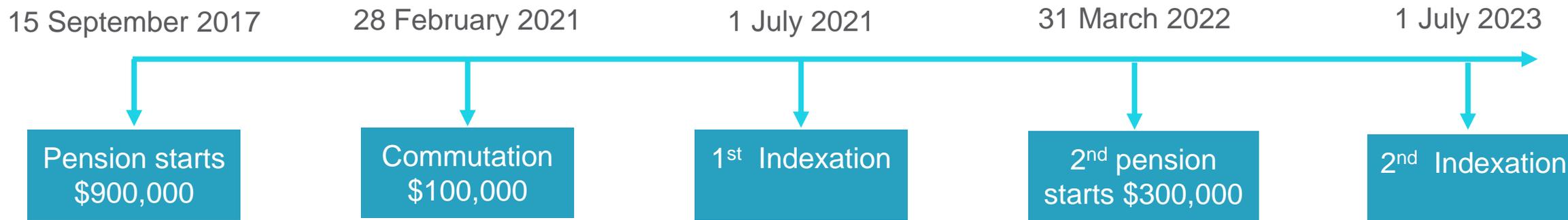
Personal TBC
\$1,625,000

Indexation from 1 July 2023

No further amounts counted towards TBC since 1/7/2021
Indexation from 1 July 2023 = 25% of \$200,000 = \$50,000
Indexed unused cap = \$400,000 + \$25,000 + \$50,000 = \$475,000

Personal TBC
\$1,675,000

CASE STUDY – INDEXATION OF PERSONAL TBC



Date	Transaction	Debit	Credit	TBA	PTBC	Cap space
15/09/17	Pension		\$900,000	\$900,000	\$1,600,000	\$700,000
28/02/21	Commutation	\$100,000		\$800,000	\$1,600,000	\$800,000
1/07/21	Indexation			\$800,000	\$1,644,000 ¹	\$844,000
31/03/22	Pension		\$300,000	\$1,100,000	\$1,644,000	\$544,000
1/07/23	Indexation			\$1,100,000	\$1,712,000 ²	\$612,000

¹ $\frac{\$900,000}{\$1,600,000} = 56.25\% = 56\%$ (rounded down)
 Unused cap = 44%
 Indexation = 44% x \$100,000 = \$44,000

² $\frac{\$1,100,000}{\$1,644,000} = 66.91\% = 66\%$ (rounded down)
 Unused cap = 34%
 Indexation = 34% x \$200,000 = \$68,000

DEFINED BENEFIT INCOME CAP

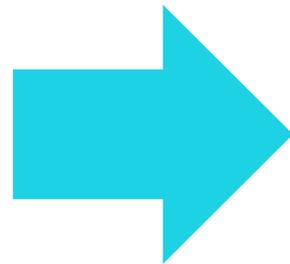
Taxed source: 50% of the income that exceeds defined benefit income cap is included in taxable income and is taxed at the MTR.

Untaxed source: The 10% tax offset is not available to income that exceeds defined benefit income cap.

Did you know?

The indexed defined benefit income cap of \$118,750 is available to all – even if the defined benefit pension started before 1 July 2023

Current
defined benefit
income cap is
\$106,250



From
1 July 2023
it will become
\$118,750

INTERACTION BETWEEN TSB AND GENERAL TBC

1. Relevant to non-concessional contributions
2. Small business CGT and downsizer contributions count towards the TSB however, they are not constrained by the TSB restrictions
3. If TSB exceeds certain limits, NCCs cannot be made or are reduced

The concessional cap for 2023-24 will be \$27,500

Pre 1 July 2023	
TSB	Max NCC
<\$1,480,000	\$330,000
\$1,480,000 - \$1,590,000	\$220,000
\$1,590,000 - \$1,700,000	\$110,000
>\$1,700,000	\$0

From 1 July 2023	
TSB	Max NCC
<\$1,680,000	\$330,000
\$1,680,000 - \$1,790,000	\$220,000
\$1,790,000 - \$1,900,000	\$110,000
>\$1,900,000	\$0

WHO WILL BENEFIT FROM INDEXATION?

Deferring commencing a pension or triggering the three year bring forward for NCCs until next financial year may benefit high net worth clients.

Clients looking to commence a pension for the first time – higher TBC

Clients with remaining cap space – partial indexation

Clients wishing to make NCCs using the three-year bring forward



Reversionary beneficiaries

Clients with \$1.7m < TSB < \$1.9m

COMMENCING A PENSION FOR THE FIRST TIME

- Ben had a TSB on 30 June 2022 of \$1,850,000
- If he commences a pension before 1 July 2023, only \$1,700,000 can be applied to a retirement pension
- Indexation wont be available
- Deferring the pension commencement until after 30 June 2023 will allow the full amount to be transferred to the pension phase
- Benefit = tax-free earnings on additional \$150,000 for life of pension



Any disadvantage to this approach?

INDEXING REMAINING CAP SPACE

- Madeline commenced a pension with \$1,200,000 before 1 July 2021
- Her remaining TBC is currently \$425,000.
- She has an additional \$500,000 in accumulation
- If transferring to pension phase before 1 July 2023, maximum that can be transferred is \$425,000
- By deferring until after 30 June 2023, \$425,000 is indexed to \$475,000, Madeline can transfer a further \$50,000 to pension phase



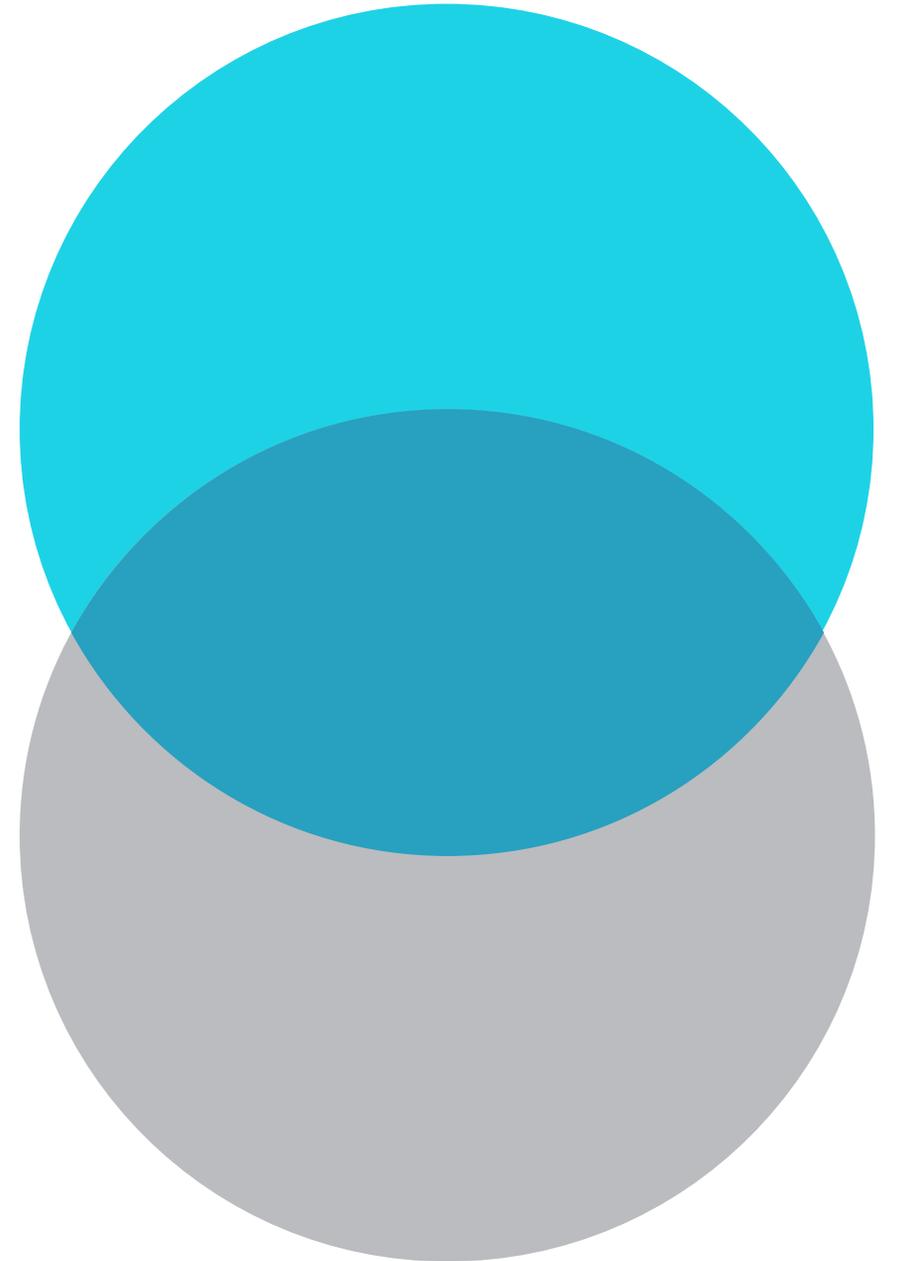
NCCs – THREE YEAR BRING FORWARD

- Tony is 67
- His TSB on 30 June 2022 was \$1,550,000
- Hasn't previously triggered his three year bring forward cap
- He wishes to maximise his non-concessional contributions
- If he contributes before 1 July 2023, NCCs are limited to \$220,000
- If deferring until after 30 June 2023, he can contribute \$330,000 subject to his TSB on 30 June 2023 being <\$1,680,000



What other option does Tony have?

HOME EQUITY ACCESS SCHEME (HEAS)



EQUITY RELEASE – THREE OPTIONS

Reverse
Mortgage

Home
Reversion

**Home Equity
Access
Scheme**

WHAT HAS CHANGED?

*As the Scheme is provided for under statute and not under a contract, these debts are not considered 'credit contracts' under the National Credit Act and therefore not regulated under the National Credit Act. We consider that **financial advisors can advise on the Scheme without requiring an ACL**, notwithstanding their functional equivalence to reverse mortgages that are regulated under the National Credit Act.*

Source: ASIC 20 December 2022

WHAT IS THE HEAS?

- A Government funded reverse mortgage, administered by Centrelink
- Created in 1985 – originally known as the Pension Loan Scheme
- Available to people who:
 - are of age pension age, or partnered to somebody who is;
 - qualifies for the Age Pension or Service Pension, DSP or Carers Payment (even though their rate of payment may be \$0);
 - owns Australian real estate (doesn't have to be a principal residence)

HEAS is available to self-funded retirees excluded from a benefit because of the income and assets test

WHO IS THE HEAS SUITABLE FOR?

- ✓ Additional regular or temporary income
- ✓ Small lump sums (Advance Payments)
- ✓ Funding temporary or ongoing costs of aged care – DAP &/or MTCF etc.
- ✗ Those seeking large lump sums from their home equity



HOW IT WORKS

1. Allows an eligible applicant to receive up to 150% of the maximum rate of age pension
2. If receiving an income support benefit, the maximum is 150% of the maximum rate of age pension, less current income support payments
3. Payable in fortnightly instalments
4. Interest is capitalised – currently 3.95%
5. Advance payments – up to two per annum

Example

- Jack is 72 and Jill is 70
- They own their own home – value \$800,000
- Current age pension = \$1,150pf, combined
- They would like some additional income

Workings – fortnightly payment

Maximum age pension (@ 20/9/22)	\$1,547.60
Maximum available under HEAS (150%)	\$2,321.40
Less current pension	<u>\$1,150.00</u>
HEAS available	\$1,171.40*

*subject to maximum loan amount

FEATURES

1. Maximum loan is capped – recalculated every 12 months
2. Ability to exclude part of the value of the property – nominated amount
3. No negative equity guarantee
4. Payments are not taxable and don't affect income or assets test (unless saved)



Home Equity Access Scheme calculator

[← Back](#)

Estimate how much you can borrow under the Home Equity Access Scheme

Things to know

- The interest rate used in the calculation is 3.95% per annum and is applied fortnightly on the loan.
- The cost and fees to establish a loan changes depends on your situation. For this calculation we used \$500.
- A Home Equity Access Scheme loan needs to be repaid if you sell your property or be paid from your estate. The [No Negative Equity Guarantee](#) may apply when you settle your loan. You can also make repayments at any point in time.

There are [terms and conditions](#) that you should understand when using this tool. By starting, you acknowledge that you have read and understood the terms and conditions and estimates provided by this tool are not a guarantee.

MAXIMUM LOAN

$$\text{Age component amount} \times (\text{value of real asset}^1 \div 10,000)$$

Age	Age component amount
65	\$2,530
66	\$2,630
67	\$2,740
68	\$2,850
69	\$2,960
70	\$3,080
71	\$3,200
72	\$3,330

Jack and Jill – maximum loan - no nominated amount

$$\$3,080 \quad \times \quad (\$800,000 \div 10,000)$$

$$= \$246,400$$

Jack and Jill – maximum loan - nominated amount \$250,000

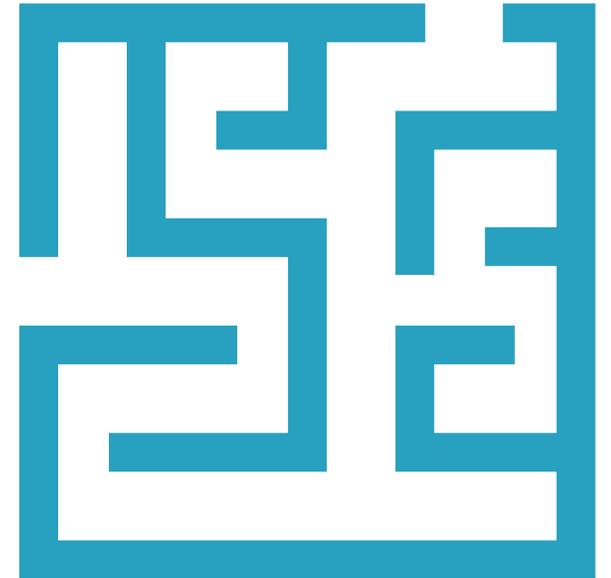
$$\$3,080 \quad \times \quad [(\$800,000 - \$250,000) \div 10,000]$$

$$= \$169,400$$

¹ Market value of property, less nominated amount and existing mortgages or loans , if any.

TIPS FOR ADVISERS AND CLIENTS

1. Security subject to valuation – arranged by Centrelink
2. Low-cost reverse mortgage option
3. Retirement village accommodation generally won't qualify as security unless resident holds title
4. Loan is repayable on sale of property or from estate
5. Subject to periodic review
6. Family needs to be aware of impact of the Scheme on future inheritance
7. Property must remain insured (including flood)



WRAP UP AND QUESTIONS

Indexation of the TBC

- Additional amounts available for first-time income streams
- Increase of remaining cap space
- Allows people with higher TSB to make NCCs

Home Equity Access Scheme

- An alternative to traditional equity release schemes for those desiring additional regular income
- Financial advisers may provide advice – subject to individual licensee constraints