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Advisers must prepare as pension changes loom

Financial advisers need to help aged clients understand their financial options, and the impact of choices, if they are to implement solutions that best respond to age pension measures proposed in the government's Budget Savings (Omnibus) Bill 2016, introduced to parliament last week.

Speaking to financialobserver, IOOF technical services manager Josh Rundmann said the government's plan to remove the assets test exemption after two years for those leaving the family home and entering aged care, and include net rental income under the income test for those renting out the family home when entering aged care, would place additional strain on clients.

The changes look likely to come into force on 1 January 2017 but, with uncertainty still surrounding the proposed amendments to superannuation, Rundmann noted it was still unclear when new laws for the age pension would come into effect.

"Moving into aged care is already a highly emotional decision in most cases, so one of the things that falls by the wayside is financial arrangements," he said.

"Because exemptions won't exist anymore, a lot more people will consider selling the family home to pay a lump sum to cover accommodation costs in aged care, or if they rent out their home, they're not going to get the benefit of asset and income test exemptions."

The two-year asset test exemption window would also pose challenges, he said.

"What a financial planner will consider is the potential impact on the age pension when that exemption runs out, the potential costs a client is going to incur in moving into care, and how they might structure the covering of costs," he said.

"On top of this, they need to offset what a client is trying to achieve: if the next generation is in a position to purchase the family home from mum and dad, then that is something they can bring forward rather than it being testamentary or an asset passed on in an estate, so long as we are not jeopardising the client's preferred outcome for potential social security benefits."

Given the age pension would not be immediately affected, he said, advisers could help clients adopt a mindset where their pension would include the value of their home, allowing them time to properly consider how best to structure their finances once that two-year period expired.

“One of the big challenges is going to be how and when this comes into play – if an adviser has clients looking to move into aged care in the future, there’s potential for them to fall under the grandfathering arrangement,” he said.

“For those existing clients already in care, they’ll have access to the indefinite exemption, even if they’re not using it right now. “So it will be about when you’ve moved into care, not whether you’ve already got that rental exemption happening.”