Sorting the secrets of your super benefits

MONICA RULE

When you can access super

Date of birth	Preservation age
Before July 1, 1960	55
July 1, 1960-June 30, 1961	56
July 1, 1961-June 30, 1962	57
July 1, 1962-June 30, 1963	58
July 1, 1963-June 30, 1964	59
From July 1, 1964	60

Source: ATO

There is still considerable confusion over when you can retire — or to be more precise when you can start to access superannuation benefits.

What causes confusion is the superannuation law's definition of "retirement" is different for people who have reached their preservation age, but are under 60 years old, and people who have turned 60.

The point at which you reach preservation age (the age you can access superannuation benefits) depends on when you are born — it is a sliding scale. For example, if you were born in 1962 you cannot access super until you are 57, and so on (see table). Now one obvious way to access a lump sum superannuation benefit when you have reached your preservation age but you are still under the age of 65 is to retire from work. You can access a non-commutable pension when you have reached your preservation age (under 65) and are still working, but in order to access a lump sum payout from your super fund, you will need to retire from gainful employment.

But there is more latitude in the system. For a person under 60, retirement occurs when their gainful employment has come to an end and they intend never to become gainfully employed again for 10 or more hours per week. The cessation of their employment must be bona fide and there must not be any intention to resume work.

The person does not have to state that they "guarantee" they will never work again. They simply need to state they intend not to work again for 10 or more hours per week at the time of making their declaration.

After ceasing employment, the person can commence another job for less than 10 hours per week. Paid employment of less than 10 hours is not considered to be "employment" for superannuation purposes.

The retirement definition also does not preclude a person from later returning to full-time work. Importantly, if the individual simply changes their mind at a later date and returns to work, it does not mean they have breached their retirement agreement with the trustee of their superannuation fund.

In contrast, for a person 60 or over, retirement occurs when their gainful employment has come to an end. Their intention about future employment is not important. If a person gives up employment with one employer but continues working for another employer, then they would be considered retired from one form of employment and would be able to access their superannuation savings accumulated up to that time.

Any money contributed to their superannuation fund after ceasing employment would need to meet a fresh condition of release (such as ceasing work with the other employer) to be accessed from the fund. There is no requirement for the person to cease all gainful employment at the one time. All that is important is that an employment arrangement has come to an end and that this occurred after the person turned 60 years of age. If a person is aged 60 or over but is under 65 and they ceased to be gainfully employed before their 60th birthday, then they still need to satisfy the trustee of their super fund that they do not have any intention of resuming gainful employment again, to access their superannuation.

Gainful employment

Not surprisingly, people who have never been in gainful employment cannot access their superannuation under the "retirement" grounds. These people will need to wait until they either turn 65 or they meet other conditions of release.

Under the super law, a person is considered to be "gainfully employed" if they are employed or self-employed for gain or reward in almost any form of employment. This requires a person to provide either mental or physical labour and receive some tangible reward for their efforts. The amount of payment, the level of effort involved and whether it results in a profit or loss is immaterial.

However, an activity is not considered gainful employment where the only form of payment is an allowance or reimbursement for incidental expenses. This would occur in the case of voluntary work where a person may be reimbursed, in part or in full, for the cost of meals, travel and other incidental items. It would also not include a person receiving a government allowance for looking after a disabled relative, or a relative who undertakes child minding on an ad hoc basis.

Anyone thinking of accessing their superannuation under the "retirement" grounds needs to ensure they maintain appropriate documentation as proof that they have ceased gainful employment. A person employed under an employment contract could provide a letter of termination or retirement from their employer. A person who is self-employed could provide a statutory declaration stating they have terminated their employment and do not intend to be gainfully employed again for 10 or more hours a week.

Accessing super without satisfying the requirements of the superannuation law could mean a person's superannuation money is treated as "normal income" and taxed at their marginal tax rate by the tax office. Worse still, the ATO Office may also impose penalties for accessing their super illegally.

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Age takes its toll on weary investors

The sector is going through an expensive growth phase

JOHN RAWLING

Main: The number of people in permanent aged care in Australia is expected to triple in the next 35 years, from 225,000 today to 700,000 in 2050. Inset: Norah Barlow, the newly appointed chief executive of Estia.
INSET PICTURE: AARON FRANCIS

Australia's listed aged-care providers — Estia Health (EHE), Regis Healthcare (REG) and Japara Healthcare (JHC) — undertook IPOs in a flurry of excitement in 2014, lured by an ageing population, greater disposable income and the demand for better quality aged care.

On broad numbers alone, the enthusiasm of the companies and investors was understandable. The number of people in permanent aged care in Australia is expected to triple in the next 35 years, from 225,000 today to 700,000 in 2050. As people live longer, more and more will inevitably end up in aged care.

Investors were quick to jump in. The share prices of the three companies rose in the year that followed their IPOs, but the trend in share prices since the end of 2015 has been broadly downward.

Estia's share price has flatlined around $3 for much of this year, after reaching $7 in late 2015 — the group has, however, changed its management team with newly appointed CEO Norah Barlow taking the reins earlier this year.

Japara's shares have fallen from more than $3 in late 2015 to $1.75 today, and Regis shares have fallen from more than $6 in 2015 to below $3.50 (see chart).

It seems aged care might not be the pot of gold that many thought.

A closer look at recently announced annual results from each company made for interesting reading.

Japara's EBITDA rose 7 per cent to $60 million but its dividend reduced from 11.5c per share to 11.2c per share, with franking down to 84 per cent from 100 per cent.

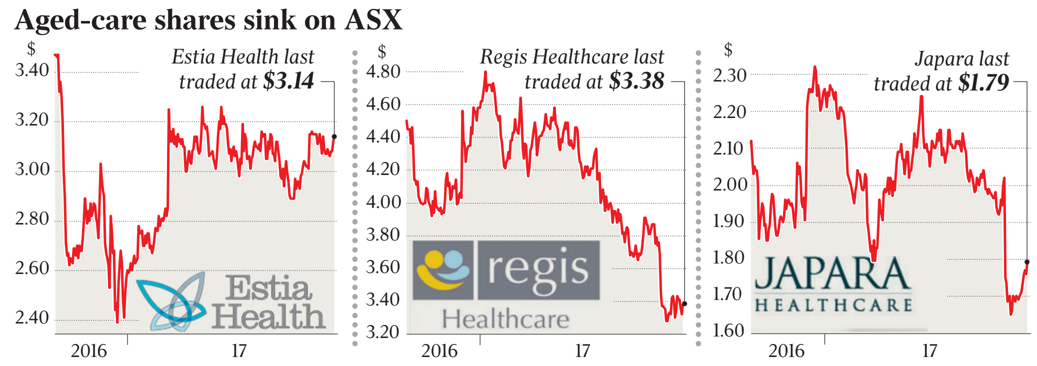
At Regis profits rose 18 per cent but management guided that earnings would be flat in the year ahead.

Estia reported EBITDA of $86.5m, down from $92.7m last year, despite revenue growing 18 per cent: Total dividends fell from 25.6c a share in 2016 to 8c a share in 2017.

Japara and Regis are sitting on large debts, with debt-to-equity ratios of 96 per cent and 138 per cent respectively. When borrowing costs rise, there will almost certainly be a hit to profit.

There are five other reasons why listed aged-care operators are struggling:

Aged-care shares sink on ASX



Source: Bloomberg

1. Reduced government funding
At the midyear economic and fiscal outlook (MYEFO) in November 2015 the government announced that some aged-care providers were taking advantage of the low-care/high-care funding disparity, and putting too many people into high care to attract the higher government funding. It announced that a review of funding arrangements would save it more than $1 billion. These changes were ratified in the following year's budget.

2. Rising costs
The cost of running a bed in an aged-care centre is typically about $200 a day. In order to make a profit, operators must charge significantly more than that. Things are tougher when they are operating at less than 100 per cent capacity. The major component of their revenue is locked in via government funding. The rest they must make up via the extra services fee and the daily accommodation payment (the interest payment on any unpaid RAD, formerly known as the bond).

3. Staff wages
As ever, running an aged-care centre is a balancing act. Too many staff affect profits, too few staff and standards of care drop and people leave. Staff are generally on enterprise bargaining agreements, so their wages are locked in.

4. Pressure on fees
The costs of aged care — particularly the initial cost of entering aged-care bed (the RAD/bond) — are a function of supply and demand. There are more than 2800 aged-care centres in Australia, and many of them have empty beds, so there is plenty of choice. If there are empty beds, there is significant pressure on operators to offer deals on RADs and extra services fees. The level of government funding also encourages operators to offer concessional beds to people with low means.

5. Competition from NFPs
Listed aged-care providers have plenty of competition from not-for-profit aged-care providers, which do not have the same pressure to make a return on investment. In addition, not-for-profit organisations can offer staff benefits that their for-profit counterparts cannot match, such as exemptions on Fringe Benefits Tax. This makes it harder for the listed companies to attract staff.

The aged-care sector is going through an expensive growth phase.

The companies are increasingly struggling to cover their costs with sufficient margins to attract the interest of investors.

The market has brought the shares of aged-care providers back to about 15-16 times earnings, which is where they will remain until they can convince investors that large-scale growth is likely.

John Rawling is an aged-care consultant at Joseph Palmer & Sons

Older heads must prevail when unlocking Centrelink's work bonus

JAMES GERRARD

Millions of older Australians — including many successful investors — still work and interact with Centrelink to receive benefits they are entitled to under the law.

I regularly come across people in this position who are not getting their full entitlements under the so-called "work bonus". In particular, people often misunderstand how much they can earn a week.

If you are dealing with the agency it is important to understand how the difference between self-employed and employee income can drastically affect a person's Age Pension entitlement.

There are two tests Centrelink applies when it comes to assessing your Age Pension: the assets test and the income test. Depending on whether you are single and if you own a home, different thresholds will apply.

In September 2009 the federal government introduced what's known as the work bonus. It's a dangling carrot aimed to entice older Australians to keep working, with the promise that part of their employment will not be counted towards the income test, meaning that it would be possible to work and still receive the Age Pension.

Subject to other eligibility tests, you could receive the full Age Pension if you have fortnightly income of up to $168 if you're single, and up to $300 for couples combined. However, with the work bonus, you can earn an extra $250 a fortnight on top of these amounts before your pension entitlement is affected. And as a kicker, up to $6500 of work bonus can be accrued, which is handy for those who work in infrequent blocks of time, such as university exam supervisors.

Newcastle financial planner Chris Kourmpatsos says "be careful though, not all types of employment income are counted under the work bonus incentive".

"Centrelink defines employment income as paid work undertaken by the person as an employee in an employer/employee relationship," he says. "This includes but is not limited to salary, wages, leave payments, commissions, employment-related fringe benefits, bonus payments, supported wages and casual loading."

In other words, if you're self employed and receive business income as a sole trader or through a partnership, company or trust, you will not be able to apply the work bonus, and potentially miss out on some age pension.

But there is something you can do. It involves restructuring your operating entity to meet the definition of employment income. Mr Kourmpatsos says: "If you ran a small furniture repair business as a sole trader with an ABN for example, you would not be eligible to apply for the work bonus. However, if you converted that same business into a Pty Ltd company and paid yourself a wage as an employee of the new company, you could unlock the work bonus provisions."

The impact can be significant as the income test reduces the pension payable by 50c in the dollar for singles and 25c in the dollar each for couples. Although there are transition costs to change over business structures and potentially higher ongoing accounting costs to run a company, compared to being a sole trader, the ongoing benefit is up to $3250 in extra Age Pension per year.

"Centrelink assesses the assets and income tests concurrently and reduces the Age Pension by the test that results in the largest reduction," Mr Kourmpatsos says.

So it is important to note that this strategy works only where the income test is the deciding test in reducing your Age-Pension benefit. If the assets test is the dominant one, creating more space under the income test will do nothing to improve your benefits.

Widely misunderstood or ignored issues such as the work bonus are becoming ever more important. Not only are we living longer in retirement but we are now also working longer before we get there. OECD data shows an increase in the number of Australians who choose to remain in the workforce beyond the age of 65.

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