Dollars talk in clamour for medicos

Noel Whittaker

With our ageing society pressuring health services, your savings will likely decide your place in the queue for care.

FOR more than 30 years there have been warnings galore about the problems that will come when the baby boomers start to leave the workforce. This group, born between 1946 and 1964, are now aged between 64 and 46 – the oldest of them are either retired or thinking about it.

Their exit from the workforce will cause labour shortages, and put pressure on wages as employers compete for a dwindling number of workers.

Furthermore, their increasing need for health services will cause immense challenges for an already stretched health sector.

Governments of all persuasions have long been aware of this ticking time bomb, but thanks to the adversarial nature of politics, there has been a lot of talk but not much action.

In 1997 the Howard government tried to fix the crisis in the nursing home industry by introducing accommodation bonds. Labor ran such a successful scare campaign the scheme was dropped.

In budget after budget there have been attempts to address the rising cost of the Pharmaceutical Benefits Scheme but still the costs escalate.

The first Intergenerational Report into these problems was commissioned by the Howard government and included in the 2002-03 budget. A second report was released in 2007.

This week Prime Minister Kevin Rudd gave a hint of the contents of the third Intergenerational Report which has been delivered to the Government but not yet made public. According to him, by 2050 there would be only 2.7 people of working age for each person aged 65 and older. Right now the ratio is five to one.

He pointed out unless we make big changes, we will either generate large unsustainable budget deficits into the second quarter of the century or we will need to reduce government services – including health services – as the needs of an ageing population become greater.

Of course he is stating the obvious – what is not so obvious is how the Government is going to make the changes required. The first two Intergenerational Reports clearly set out the problems, and what was needed to solve them. If action had been taken then, Mr Rudd would not be telling us that big changes are needed now.

Let me share a scary scenario that was put to me this week by David Williams, the brains behind mylongevity.com.au. David believes that if people are well informed and act early, they have the chance to make a significant difference to the quality and cost of their lives as they age. He suggests that as a community we need to start providing more incentives for people to manage their health well, not just groan about additional health costs of ageing.

Most government projections regarding life expectancies are conservative, because they are produced from historical data. But keep in mind that there are nearly 20 years before the oldest baby boomers start to nudge 85 – a period when their health costs will surely accelerate.

Williams believes that expected medical breakthroughs in the next 20 years are almost certainly going to add considerably to forecast life expectancies. Therefore, the predictions in the Intergenerational Reports are almost certainly going to be way below the mark, and health budgets will be under far more pressure than has been forecast.

Unfortunately it's a gloomy prediction but it's hard to argue with it. Unless you have more faith than I do that governments will be able to solve these problems over the next 40 years, you should be making every effort to work as long as possible to accumulate as much as you can for your retirement. Australia is moving inexorably to a society of haves and have-nots. Despite a lot of political rhetoric, it will be the haves who will be first in line for medical care as the queues for health services grow.

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noel.whittaker@whittakermacnaught.com.au

Q My financial planner recommended I make a salary sacrificed contribution based on $40,000 from a recent inheritance from my mother's deceased estate. My annual salary is $34,000, so this recommendation does not make sense to me as the savings in income tax would only amount to a few hundred dollars per year. Would it make more sense to make a one-off non-concessional contribution direct to my existing superannuation account?

A If your total income is $34,000 a year you are in the 15 per cent tax bracket so there are no annual income tax advantages by holding money in super where the fund pays income tax of 15 per cent per annum. Also, salary sacrificed contributions lose 15 per cent entry tax. I agree that you may be better off to make non-concessional contributions to your super account but consider doing it over the next two financial years to maximise the government co-contribution that will arise from making the non-concessional payment.

Q I have been claiming a tax deduction for the full $50,000 contribution to super for a few years now and also working as an employee and being paid super benefits by them. I have been assured that as long as the employed amount I earn is less than 10 per cent of my total income, that is the 90 per cent being business/investment income, then I can claim the super benefit of currently $50,000 per annum – I am 60 years old.

A You are right in stating that you can claim a tax deduction for your super if the money you earned from your employer is less than 10 per cent of your total income. However keep in mind that your employer is required to pay super for you too and the amount paid by the employer is included in the maximum amount of $50,000 that is allowed. Based on the information supplied you may find yourself with an excess contributions problem, so take advice as soon as possible.

Q I have two negatively geared investment loans and have recently spoken to my two banks regarding loan offset accounts.

Responses from both banks suggest that the interest earned on the loans offset account reduces the interest payable on the loan, rather than reducing the principal, which in my case would directly reduce the interest deductible for tax purposes. Am I missing something? Is there a product from another bank I should be looking at?

A The notional interest on an offset account certainly reduces the interest payable on the loan account, but remember that the principal will still be reducing faster if you are making monthly repayments of principal and interest because the interest component will be lower than it would be if you did not have an offset account. Also, keep in mind that the tax office pays 46.5 per cent of your interest bill at most so you are still paying 53.5 per cent of it out of your own pocket even if you are in the highest tax bracket.

Another option may be to talk to a financial adviser about placing surplus funds into an insurance bond. This will allow you to accumulate funds in a concessionally taxed environment and the growing balance will become a sinking fund, which could eventually be cashed in tax free to pay off any loans you may have.

Send your questions to noel.whittaker@whittakermcnaught.com.au

Castle by the beach becomes more affordable

By **JOHN KAVANAGH**

A POPULAR conversation topic around dinner tables in rented holiday homes across the country over the past month has been whether it makes sense to invest in a beachside property and own your own place for weekends, holidays and maybe longer-term stays in retirement.

It is part of the holiday ritual.

Aside from the lifestyle there are questions about income yield, taxes and potential for capital gain.

Values in some of the key holiday markets have fallen heavily over the past two years and the experts believe holiday houses are more affordable now than they have been for some time. They also believe that, while there are some medium-term challenges to the sector that might keep prices down for the next year or two, the long-term outlook for coastal property is sound.

The head of research at RP Data, Tim Lawless, says people have to be clear about what they can achieve in investment terms when they buy a second house in a holiday location.

Lawless says: "If they are looking for a steady rental income stream they will be disappointed. When you are dependent on holiday occupancy it is very difficult to generate a high yield.

"The main game with this sort of investment is capital growth and it is a much better prospect from that point of view. For reasons of lifestyle and prestige there is always going to be demand for places close to the water."

Two years ago BIS Shrapnel did a survey of coastal property ownership. It found that 8 per cent of Australian households had a second house in a holiday destination and the biggest group of buyers were in the 50 to 64 age group; with many starting to think about where they will live when they retire.

BIS Shrapnel senior project manager Angie Zigomanis says the survey found that 44 per cent of these owners offer their properties for rent and the average number of weeks the property is available for rent each year is 40.

Like Lawless, Zigomanis believes coastal property is a sound investment for long-term capital growth but a poor option as an income-producing asset.

He says it is important to make sure you are buying in an area that shows evidence of good capital growth.

Coastal property values have been adversely affected by two factors over the past couple of years – the financial crisis and the poor performance of the Australian tourism industry.

According to RP Data, property prices in key holiday markets, including, Cairns, Byron Bay and the Victorian surf coast peaked in late 2007 and early 2008.

The median house price in Byron Bay at the peak was about $550,000. Prices in the northern NSW resort bottomed below $300,000 early last year and have made a slight recovery to a current median of about $320,000.

Lawless and Zigomanis agree that these declines make holiday properties more affordable but they say investors should not expect prices to come back in a hurry.

The ongoing recession in the tourism industry is one factor that is expected to keep a brake on price growth.

Lawless believes a recovery in tourism is a couple of years away and this will hold back the coastal market. He says: "An investment in a holiday home must have a five-year time horizon."

A growing issue in the coastal property market is coastal erosion and other environmental change.

Lawless reckons global warning could lead to a shift in people's buying habits. But he says the lifestyle factor still outweighs the environmental factor and may do so for some time.

"People will not take it seriously until they see insurance companies charging a high premium for beachside houses. We have not seen that yet," he says. SMH