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Newsletter – December 2018

Residential Care Subsidies – What You Need To Know

When you retire you need to know how you are going to pay for any care you might need as you get older.

We are often asked for information about rest home subsidies. For most of our clients rest home subsidies are out of reach, due to the value of their assets and effective estate planning. It is important however to know the rules, and to know what to expect.

What is it?

Residential care falls into four categories: **rest home care**, **long term hospital care**, **dementia care**, and **psycho-geriatric care**. In most cases the cost of care is subsidised by a government subsidy called Residential Care Subsidy.

Is everyone eligible?

No. To be eligible you must be formally assessed as “needing care”. This assessment is called a needs assessment and is carried out by the Needs Assessment agency. Your GP will assist in arranging this.

What Government funding is available?

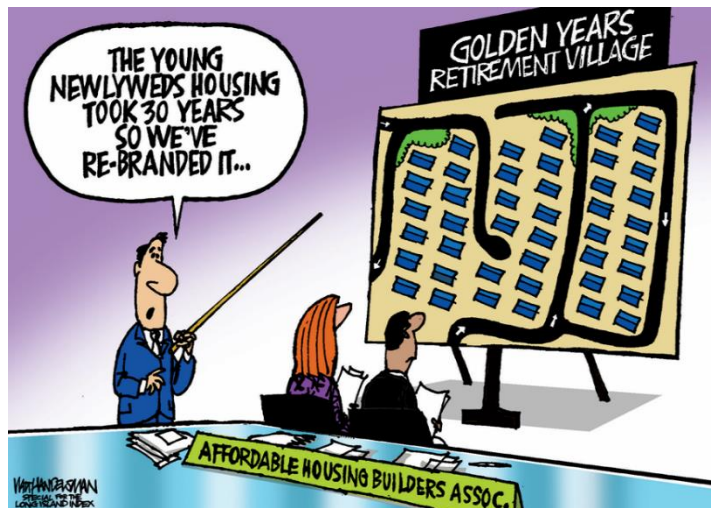
Once you have been assessed as needing care you can apply for the Residential Care Subsidy. The Subsidy is means-tested. If your assets are below the asset threshold you will qualify for the subsidy to pay most of your care. There is also an income test. The income test determines what you will contribute to the cost of your care from any income you receive (including NZ Super).

What is the asset threshold?

1. Single, or have a partner in care – total assets of \$219,889 or less.
2. Partner not in care – choose either the single threshold of \$219,899 or total joint assets of \$120,416 excluding your car and house.

What about gifting assets into a Trust?

There are strict rules around gifting assets. A couple may gift up to \$6,000 of combined gifts per year for the 5 years before they are assessed. Gifts made prior to those 5 years can be up to a combined value of \$27,000 per year. Gifts over these values will be counted back into your assets. Please note that this differs from the old Inland Revenue rules which allowed couples to gift \$27,000 p.a. each without incurring Gift Duty (before Gift Duty was abolished).





What is the Subsidy?

The amount your care provider will receive is the difference between the cost of your care and your assessed income contribution. The maximum contribution is set every year by the DHB and pays for the full cost of services. It may vary regionally however is capped at \$960.00 per week (incl. GST).

Residential Care Subsidies are only a minor part of the matters covered by a good Estate Plan. Your Financial Planner is the right person to call concerning your requirements in retirement.

How Scams can Masquerade as Skill



An email arrives from a research firm claiming their research knows with absolute certainty that a particular stock is going up in value next week. You are sceptical and place the email in junk. One week later another email arrives claiming another particular stock is about to drop in value. You check the first stock from the week earlier and they were right. The stock went up. Over the course of the next week you watch the stock from the second email drop as predicted. Week after week, email after email, the research firm continues to reveal the future of a single stock as if reading a crystal ball.

After 10 weeks of correct predictions you receive an email asking you to invest. You calculate the probability that they could get 10 positive/negative calls correct in a row as $1/1024$. This can't be by chance and you pull the trigger and invest. A few months later you have lost all your money. What went wrong?

What you didn't know was you were not the only individual to receive that first email from the "research firm". In fact, 10,240 emails were sent out. Half of these emails (5,120) predicted that stock A would rise, while the other half (5,120) predicted that stock A would fall. The 5,120 people who received the email saying stock A would rise (the correct group) received a second email the following week. Half of these "week 2" emails (2,560) stated that stock B would drop. This continued each week for those who received the correct calls. After 10 weeks there are only 10 people who received 10 correct calls in a row. You happen to be the lucky, or unlucky, individual to get 10 'correct' calls.

This illustrates how scams can masquerade as skill. The problem we face throughout life is how to differentiate between the skill and experience of an adviser, or what may be just statistical happenstance. Your adviser is here to help you make informed decisions.



Have We Reached the Maximum Age of Life Expectancy?



Earlier this year the Centre for Disease Control and Prevention (CDC) in America issued its annual report on mortality. According to the report life expectancy in America fell for the 2nd year in a row. An American baby born in 2017 can now expect to live on average 78.6 years, down from 78.9 years two years earlier. The last time life expectancy fell 2 years in a row was in 1962-63.

According to the CDC, the leading causes of death in 2017 remained heart disease and cancer. But a category called

“unintentional injuries” which includes drug overdoses, suicides and shootings, climbed to third. Although this category caused just 6% of deaths, they claimed most people under the age of 40. This reflects that a younger person’s death cuts the average life expectancy by more than an older person.

At the same time, the decrease in mortality from heart disease and cancer (which has been a chief driver of the steady increase in life expectancy) has begun to level off. As a result, any increase in the unintentional injuries category would push life expectancy down again. A decline for three straight years was last seen in America a century ago after WW1 when the Spanish flu pandemic ravaged the world.

When was the last time you looked at your insurance cover? If you require assistance with your risk protection plan, please contact Rede’s risk and insurance director Guy Buchanan.

Record Bank Profits (Again)

ANZ New Zealand recently revealed a record profit of almost 2 billion dollars for the year ending 30 September 2018. The profit result was a record for any company in New Zealand at \$1.99 billion.

ANZ states that the result reflects the continued strength of the NZ economy, however the figure has also yielded questions around customer fees, particularly with regards to mortgages and KiwiSaver funds. The banks display their fees in percentages rather than dollar figures and it is almost impossible to work out how much you have been charged over the course of a year.





The profit on their KiwiSaver funds is in excess of \$500 million, and the profit on their mortgage loan book is even higher (NZ bank mortgage margins are very high by global standards).

The profit ANZ has made this year is more than Fonterra, Spark, Air New Zealand, and Ryman put together. Even more concerning is that this profit is shipped back across the Tasman and will be inflating the Christmas bonuses of many over-paid Australian bank executives over coming weeks.

ANZ is the largest bank in New Zealand, however not too far behind them comes the other 3 Australian owned banks: Westpac, BNZ and ASB. If all 4 Australian banks make profits as expected then over 6 billion dollars (\$6,000,000,000) of hard-working Kiwis money will be heading back to Australia and used to prop-up their economy, not ours.

How did we let this happen? When will we realise banks make profits for their shareholders, not their customers?

New Conditions – Beware!

- **Seasonal Affection Disorder (SAD):** An exaggerated emotional response (typically shrieking and air-kissing) triggered by seeing insignificant acquaintances at annual parties.
- **Gift-aphasia:** Loss of memory that causes the accidental recycling of gifts back to the same people who gave them to you last year.



Christmas Office Hours

Our office will close for the Christmas break at 1.00pm on Friday, 21st December. We will return to the office on Monday, 14th January 2019.

As always, the directors are available on their mobiles in the event of an emergency. If you require urgent assistance, please call and leave a message and they will get back to you as soon as they can.

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Best wishes to you and your families from the Rede Advisers team Steve, Michael, Guy, Ona and Michael



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