

SUPPLEMENT YOUR RETIREMENT INCOME: HOME EQUITY ACCESS SCHEME

Major life events often trigger mixed and conflicting emotions. Retirement is no exception. While retirement can be exciting, it is also a daunting life stage to commence. For most individuals, it means forgoing a stable employment income and relying entirely on life savings. The Government's Age Pension is one source of income for eligible individuals, but what are some other options available for retirees to supplement their retirement income in a low interest rate world without taking on excessive risk?

Many would turn to a reverse mortgage from a financial institution which allows a homeowner to draw on their home's equity as an income stream or lump sum. However, did you know that the Federal Government is also in the business of offering Reverse Mortgages? This is currently known as the Pension Loans Scheme (PLS) however from 1 January it will be rebranded the Home Equity Access Scheme.

In our December newsletter, we'll briefly explore this scheme.

General features of the Home Equity Access Scheme

The scheme allows eligible individuals to utilise Australian property owned by them, or their partner, as security to receive a tax-free income stream from the Australian Government, by taking out a loan against the equity in their home. Essentially, recipients are releasing equity in their property to assist with funding their retirement.

Recipients can nominate a fixed or indefinite term and may also elect to stop receiving payments at any time. Repayments can also be made at any time however the loan balance is generally settled once the property that is utilised as security is sold or recovered from the recipient's estate.

To further enhance the scheme's flexibility and attractiveness, there are proposed changes from 1 July 2022 of a no negative equity guarantee and capped advanced payments in the form of a lump sum. The former would prevent participants from owing more than what their property is worth, and thus aligns the scheme with existing private sector reverse mortgages.

The loan is provided by the Government and from 1 January the annual interest rate as determined by the Minister for the Department of Social Services is 3.95% compounding fortnightly which compares favorably to commercial reverse mortgages. Additionally, there are costs to start and exit the loan; the amount of these costs depends on the applicant's circumstances. Naturally the longer the loan is held, the greater amount that will be outstanding due to the compounding interest.

Eligibility

The prospect of additional income in retirement may be attractive however eligibility criteria limit who can access the scheme. Applicant criteria include the following:

- Have reached Age Pension age;
- Eligible for any of these qualifying pensions – Age Pension, Carer Payment, or Disability Support Payment;
- Own Australian real estate with adequate insurance (adequate is considered as 90% of the value of all buildings);
- Not bankrupt or subject to a personal insolvency agreement.

Those familiar with social security would be aware that any entitlement is determined by means testing, i.e., an assets and an income test. The test which results in the lower or nil entitlement determines the payment.

Even if these tests exclude the applicant from receiving a qualifying pension, they may still participate in the scheme.

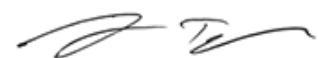
The loan amount and payment rates

Similar to a private sector reverse mortgage, the Government will apply numerous principles to determine the loan amount. For example, consideration will be given to the value of the property; the amount of equity to be retained in the property; and age at commencement. The payments will cease once the loan amount is reached.

Eligible participants may receive up to 150% of their maximum Age Pension entitlement inclusive of supplements. The loan plus any existing Age Pension entitlement cannot exceed this 150% ceiling. As an example, an eligible single person could receive a loan of up to 150% of the single maximum Age Pension of \$967.50, i.e., \$1,451.25. If they are already in receipt of a part-Age Pension of \$700 per fortnight, the maximum amount of loan they can receive is \$751.25. If their assets or income results in a \$0 payment rate, then they may receive the full \$1,451.25 per fortnight as a loan.

Get in touch

Retirees who are struggling with their monthly cash flow or looking for alternative sources of income may wish to consider the Home Equity Access Scheme in greater detail. Please get in touch with your Bell Potter adviser to learn more.



Jeremy Tyzack

Head of Technical Financial Advice
Bell Potter Securities

Bell Potter's technical financial advice team can put together a strategy designed to help you achieve your retirement objectives.

Working with you and your Bell Potter Adviser, we can help with most financial aspects of retirement, including:

- Identifying your financial goals
- Structuring your existing assets appropriately
- Identifying your approach to investment and your appetite for risk, and
- Reviewing your current superannuation arrangements.

To create a tailored investment plan based on your needs and objectives call your adviser or 1300 0 BELLS (1300 0 23357).

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