PROFILE FINANCIAL SERVICES

PROFILE'S CORNER

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FACTUAL INFORMATION AND GENERAL ADVICE WARNING

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**Asset class returns referred to in this publication are based on the following indices: Australian shares: S&P/ASX 200 Accumulation Index. International shares: MSCI World (AUD) TR Index. Fixed interest: UBS Warburg Composite All Maturities Index. Cash: UBS Warburg bank bill Index. Gold: Spot Gold Bullion (USD).*

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Profile update

Welcome to Volume 23 of our quarterly client newsletter. In this section, I provide an update on what's happening at Profile.

By Sarah Abood, CEO

Federal budget – where to from here?

We had a double-whammy in May, what with unexpectedly major changes to super announced, and now a double dissolution election looming. Some of the super changes are retrospective (despite recent rhetoric from the Coalition I don't believe the meaning of the word has changed), and there is legislative uncertainty as well with which to contend. All clients should have received our detailed analysis of the budget changes (the paper is also on our website) and I urge you to look through this document to get a sense of what changes might affect you. Some of our clients also recently attended a follow-up seminar, where we explored the implications of the changes for common super strategies.

Even though the changes are not yet law, because some are retrospective we must advise you on the basis that they will be passed. If we believe you need to act quickly, your planner will be contacting you before your next review to discuss the impact on you and actions we think you should consider. Otherwise we will discuss the impact with you, in detail, at your next review. However, please don't hesitate to contact us in the meantime if you have any questions or concerns about your situation.

Client satisfaction survey actions

We have been reviewing your feedback from our last survey to ensure we are not missing any opportunities to improve. There are two areas - informal contact and pre-review reporting - we will be working on improving over the next year.

Firstly, we are now offering you the option to receive review reports (including portfolio updates and so on) via email before your regular review meeting. If you'd like to do this, all you need to do is click on the 'YES' button in the cover email of this newsletter. This will automatically update our records, and we will email you your review reports before your regular meeting with your Profile planner. (We produce your review reports as close as possible to your actual review meeting, to ensure they are up to date. Because of this, we won't be able to pre-send reports via hard copy mail). Your planner will also raise this option with you in future reviews, and you can always change your mind.

The second area on which we're focusing is making sure we are in contact with you every so often outside of the formal review process. It can be easy to get super-busy and sometimes a year can go by with us barely realising it. We want to ensure we stay in touch between times, even if it's just to pick up the phone to say 'g'day' occasionally!

These surveys are very important to our practice, partly to ensure we're continuing to improve the way we work with you, and partly so that we can continue to grow. We very much appreciate your support and the time you give to helping us improve and be successful.

Investment update

The 'Brexit' impact

By David Matesic, Select Asset Management

Period returns to 31 May 2016 (%)

ASSET CLASS	1 MTH	3 MTH	1 YR
Australian Shares	+3.1	+11.6	-2.4
International Shares ($A)	+5.6	+7.8	+1.9
Fixed Interest	+1.3	+1.3	+4.6
Cash	+0.2	+0.6	+2.3
Gold ($US)	-6.0	-1.9	+2.1

On Friday 23rd June 2016 UK voters decided in a closely contested referendum to leave the European Union, the so-called Brexit. Brexit has been one of the key macroeconomic risks which the Profile Investment Committee have been considering for some time.

The vote by UK citizens did come as a shock to most media pundits (and investment markets) who had predicted a close result but with the UK remaining in the EU. While the sharp negative reaction by investment markets has been partially reversed within a few days, markets look set to remain volatile for the time being.

The UK result also highlighted the significant divisions in the country, with London, Northern Ireland and Scotland voting predominantly to stay, while rural England (including the North) and Wales voting to leave. This rift could potentially reopen the Scottish independence debate, and also causes issues for the Northern Ireland peace process.

The direct impacts on Australia are expected to remain limited, while the impact on the UK economy is expected to be negative as uncertainty surrounding the eventual exit impacts both consumer and business confidence. Uncertainty will cause real economic impacts as individuals and firms consider their options and in all likelihood defer decisions such as hiring and investment.

The US Federal Reserve in is likely to remain accommodative given the shock UK result, while there could be pressure on the Bank of England to cut rates given the uncertain economic environment witnessed in the days after the vote. The direct effects on the EU are unknown for the time being, but we expect the European Central Bank to continue providing accommodative monetary policy, especially considering the significant equity market falls in the periphery (notably Italy and Greece).

The currency markets seem to have borne the brunt of the storm, with the British Pound falling to a thirty-one year low against the US dollar, but less so against other currencies such as the Euro and Australian dollar.

We will continue to monitor events and financial markets closely and keep assessing the risks and opportunities through what we expect will be a very volatile period over the coming months. We intend to communicate to you in greater detail about the potential market implications and important actions we are taking to manage our portfolios in due course.

Our investment committee have experience in managing portfolios through market disruptions in the past, including the 2008 Global Financial Crisis. We believe our portfolios are well positioned to navigate through this period of uncertainty and are committed to delivering the best outcome for clients.

Will your insurer pay if you have a claim?

By Rachael Arnold, Associate Financial Planner

No doubt you've noticed that insurance is a hot topic right now. Apart from the general shock and disappointment provoked by the recent *4 Corners* episode involving CommInsure, it also reminded me how draining the insurance process (and more specifically the claims process) can be to individuals.

The episode highlighted the poor treatment of some members who chose to go public with their claim stories. These people were suffering from serious medical conditions. Then, on top of fighting for their lives from a medical perspective, they had to fight for their claim directly with the insurer.

This issue is not isolated to CommInsure. Many insurers are battling to maintain profit margins while watching the number of claims increase. The aggregate profits from risk insurance of Australia's 28 life insurers have been in steady decline for the past five years – reducing from a total of just under $1.4 billion in 2010 to a little over $200million in 2014[1]. The type of insurance held by many of the complainants in this story – group risk cover via industry or other super funds – has been particularly hard-hit, with escalating claims leading to three major insurers pulling out of the market in recent years, and steep premium increases among the remaining players. And now it appears that some insurers at least may be trying to protect falling profits through aggressive claims handling practices.

Although there are many other factors that may have contributed to them being unable to claim, one thing these people seem to have had in common was that an adviser was not used to purchase their policies.

A key benefit of using an adviser is that they do the research. Price is important but they also choose policies based on their terms and conditions, their definition of medical conditions, as well as their administrative processes - including their claims processes.

It is easy for the average person to be confused by the terms and conditions, when there are statements included in the Product Disclosure Statement of a major industry super fund such as: 'even if you're granted automatic insurance cover through us …. any cover for pre-existing conditions does not apply if a similar benefit could be claimed from another insurer at the time the cover commenced with the insurer'. Even advisers would need to look twice at that gobbledygook.

Some people think that it's easier to purchase insurance over the phone or online. They can be taken in by slogans such as 'apply online or over the phone in minutes' or 'no medical tests and no complicated application forms'. However, most of these insurers automatically exclude pre-existing conditions, and in some cases do not cover common claimable events such as mental illness. In September 2015, the *Rice Warner Group Insurance 2010 to 2013 Industry Tables* were released which sourced claims data from 16 large Australian superannuation funds. It found that mental/stress claims were the most common Income Protection cause of claim for middle-aged people. Clearly, having any policy without mental illness cover significantly reduces the probability of being able to claim.

Others are satisfied with the automatic cover they receive in their industry superannuation fund. In the wake of the recent scandal many such funds decided to review rejected claims made by their members to see if the rejection was valid. One fund, Vision Super, has already conducted a review of its members' TPD insurance claims denied by CommInsure: 'Our Benefits Committee has exercised its right to arrange independent medical advice, and a number of claims rejected by the insurer have subsequently been overturned for members,' Vision Super said. These funds already have an independent review process for rejected insurance claims – a process that clearly needs some improvement.

So another benefit of having an adviser in your corner is that they can help put the pressure on insurance providers to get a fair outcome at time of claim.

I've pulled some recent actual case studies from our files that illustrate some of the many other ways that advisers can help their clients with their insurances:

Case Study 1

A client mentioned in the underwriting process that when he visited the doctor he had a conversation about his snoring. He believed this was a fairly innocent conversation and the doctor had no concerns over it. The insurer then demanded that before insuring the person he needed to have tests done on his snoring. For a lot of people this might be the point when it all becomes too hard as they do not want to pay for unnecessary tests for something that isn't an issue for them, and they decide not to proceed with the cover. However, we fought against further testing considering the doctor had not recommended it. The underwriter agreed to speak with the client again for clarification before accepting the policy with no exclusions and no loadings.

Case Study 2

We had a client who had submitted a claim under their Income Protection policy for a specific time in the past. Once we submitted the initial documentation the insurer insisted on meeting on a particular date with no flexibility. The day before the meeting the client was provided with a list of items to have ready for the meeting. The list was comprehensive and more than one day was needed to collate everything required. In the client's words, they were upset by the tactics they believed the insurer was using. This would often be the point when someone decides it is all too hard because they are now working and earning income again, and because they cannot provide all the information in time they might just be rejected anyway. Even though the insurer insisted on a particular date we contacted the insurer and were able to have the date moved to allow our client adequate time to prepare for the meeting, enabling them to present the information to give them the best chance of a successful claim.

It is definitely worth using a Financial Adviser to implement your insurance so there is always someone in your corner – ensuring you have the most appropriate product and helping you through the claims process if it arises.

[1] 'Life insurance industry overview', APRA Insight Issue 2, 2014

Client Profile – Chris Thomas

By Aine Love, Marketing Manager

They are around you every day – you love them (and like them - most of the time); they are your flesh and blood. They are your family, and therefore it's relatively easy to want to be involved and help them. Profile client Chris Thomas goes further – he makes a difference in being actively involved in own life and with his family, but also heavily involved with his wider community.

Chris could be described as your average bloke. He's retired, married to Noelene, has three precious children and four even more precious grandchildren who are all very important in his life. As well as babysitting his grandchildren and enjoying gardening with Noelene, Chris loves watching football and is a member of the Mariners Club in Gosford.

A true family man, Chris has recently helped his 96-year-old mother transition to a retirement village. Chris acknowledges some of the challenges involved in this process and also gives some very practical advice. Having a very sharp minded mother, he reminds us all of the importance of communication. Chris made sure his mum didn't feel pushed into the move. As she moved from hospital to the retirement village it was also important for them both that her beloved items were not thrown out while downsizing her estate, while also dealing with the fact that not everything could come with her.

Small details like having Telstra connected in her room and having a newspaper delivered have made a big difference. His mum is happy in her new home and Chris feels comfortable that she *is* happy - a great result considering the amount of work and stress involved.

But Chris offers a lot more in his community – his broader family. He was named Senior Volunteer of the Year for Hornsby/North West Sydney in 2015 for his work with the Dural Men's Shed. Chris was asked by his Baptist Church to set up the Men's Shed in 2011. They now have 90 men in the Shed, who work on meaningful projects at their own pace in their own time with other men.

It's a place where men can come to share in a community, to have friendship, to look out for each other, to sometimes get away from family or health issues or to share these in a safe environment. It can be as simple as having a cup of coffee and a chat, to taking part in a woodworking project for the local school. For many, it's a home away from home. They deal with all sorts of personalities and characters at the shed and it is based on a mutual respect and trust for each other.

The Men's Shed is not Chris's first volunteering endeavour. In 2006, after a Sudanese taxi driver was murdered in the area, he started helping in the Blacktown Sudanese community. The event sparked a conversation with some friends and they identified opportunities where they could assist in that community with clothes and food initially, and afterwards with employment, training and recruitment.

Chris made some great friends with the community leaders and found the experience very rewarding. Just before Chris started with the Men's Shed he was also involved in helping to set up a house for 12 Aboriginal students from the Kimberley. The Dural Baptist Church was getting them involved in the local schools and making sure they had a stable environment in which to stay. As Chris says: 'One project closes down and another opportunity arises.'

In the last three years, Chris and the Men's Shed have been involved in a partnership with Whitelion, a charity which champions the support of youth at risk. These young boys are falling through the cracks with problems at home and/or school, trouble with the courts, and/or lacking purpose and male role models in their lives.

Through attending the Men's Shed they gain skills such as woodwork and metalwork, receive help in entering apprenticeships and also have access to male role models to help guide their way. The aim is to either get them back to school with a new attitude, or help them find interest in a trade and get them employed.

December 2015 Graduation

Chris has seen boys coming in barely able to (or wanting to) communicate, to working and interacting with the older men. Chris says: 'We have found a number of patient and dedicated men who want to work with the boys, and these men also get a lot out of it seeing the success unfold.' Chris tells us a few of the many success stories with these young men.

One young man who had been attending the Men's Shed did not show up for the second term. When Chris asked after him he discovered the young man was in jail for armed robbery. Since then the young man has been released, re-connected with Whitelion and is now employed. Another young man who had attended the Men's Shed sent a text a few months ago thanking his mentors there, letting them know that due to their interest he is now employed as a welder. "This sort of stuff helps you get up in the morning," Chris says.

The great work continues as they look to their next project, also involving youth at risk.

Chris has been a client of Profile for many years, introduced through his friendship with owner and founder Garry Ohlsen. He agreed that when something is good it's worth sharing with others!

Chris's grandson was claiming his attention as we finished our chat, but it was very inspiring to hear how much Chris does for his community – his extended family - and that for him, helping others is an opportunity not a burden!

If you would like to know more about the Dural Men's Shed or help out with your donations or skills, Chris welcomes you to drop in for a chat or visit their website www.duralmensshed.org.

Taking the assisted living journey

By Phillip Win, Senior Financial Planner

The past 20 years have been an interesting journey for me as I have seen a number of my clients transition from a very independent lifestyle in their own homes to assisted care either at home or in a retirement facility.

In the majority of discussions during that time, my clients expressed two wishes: to never be a burden to their children in the way that their parents, at times, had become; and that they did not wish to be placed into an 'old person's home'.

Many of us are charged with the responsibility of caring for parents, grandparents or ourselves, and we will inevitably have to confront a major decision in the short- to medium-term. I have always found that a decision is easier to make if a framework is provided and information is available to make an informed decision on facts rather than points of view based on outdated information.

With this in mind I will challenge you on your perception of retirement homes and outline the basic process of entering retirement living.

Why do we feel negative about 'retirement accommodation'?

The notion of 'an old person's home' has been carried forward based on what was very basic retirement accommodation in the past. For many of us, this view had been built over time through the experience of seeing our loved ones in accommodation that was less than optimal.

There are various types of retirement villages available to residents today. In the 'old days', it really only comprised of high care nursing homes within residential aged care. This is a very challenging time for the resident and their family and is typically associated with arguments, persuasion and high stress.

Without exception, family and friends charged with the responsibility of making this decision (typically via an Enduring Guardianship appointment) vow that they will not place their family in the same situation. Yet the cycle continues to repeat – the same stress, the same heartache.

So why does the cycle continue?

Perhaps it is due to the resident getting 'cold feet' on the idea, despite being 'pro' moving into a retirement village when they were much younger and the possibility of such a move was a low probability event. It's easy to appease children as the resident is 'considering' the option.

However, in the resident's desire to remain in their own home until he or she 'need' to move, the real thought of such a move becomes overwhelming. How could they possibly downsize their home? Where will all of their belongings be stored? Where will my family stay when they visit? While the resident had answers to all of the aforementioned questions and objections for their parents, it doesn't seem to make sense now. And so the cycle continues.

The circumstances where I have seen my clients transition to a retirement village successfully, have been where the actual decision is made early and on their terms. They have also managed to dispel the myth of the retirement village, either by experience or as their own peers transition. I often hear from my clients that they wished they had made the move earlier – and this is from the very same people who refused to accept that they needed to consider the move!

Everyone is getting older. Modern medicine is prolonging our lives and as a result, accommodation and services to the 'mature community' have come a long way. I challenge you to re-calibrate your current views of retirement villages and perhaps go and visit one. Who knows, you might be surprised!

When is a retirement village not a 'retirement village'?

Both the government and private enterprise have recognised a need to provide more attractive retirement accommodation. The options in the sector have exploded:

- ***Villas*** are for active retirees who are looking to downsize from their current home, but still wish to keep their independence – hence the term 'Independent Living Units'. Villas can range from one to four-bedroom accommodation within high density, multi-story buildings or stand-alone/duplex buildings, at times within a broader development.
- ***Serviced apartments*** are usually one or two-bedroom accommodation with some daily living assistance. This might be appropriate for residents who have elected to commence their transition to Residential Aged Care.
- ***Residential aged care*** typically comprises both high and low care options for residents.

Villages are also then sub-categorised into **Resident Funded** and **Donor Funded.**

The names accurately describe the differences, with the main one being that donor funded is generally restricted to those residents who have no options available to them due to financial constraints. This is compared to resident funded where the resident "purchases" their villa under one of the various tenure arrangements.

A myth I often hear is about the long waiting list to get into a retirement village. The only waiting list is for residents that the Department of Human Services assess as being eligible based on an assessment of income and assets. It is important to note that a person's home is considered a part of their assets, unless a spouse or relative still lives there.

Each retirement village is required to make available a quota of places for residents that meet this criterion. There are no waiting lists for residents who have the financial capacity to meet their own accommodation entry costs.

Accommodation costs

There are a number of ways to meet your accommodation costs:

- Non Government assisted entry
- a lump-sum style 'refundable accommodation deposit' (RAD)
- a payment called a 'daily accommodation payment'. (DAP).

The aged care facility works out the DAP based on a legislated formula to convert a RAD to DAP price.

A resident can choose either a RAD or a DAP for their accommodation costs. Legislation states that a resident cannot be left with less than $44,000 (as at the time of writing) if they choose to pay for the accommodation in full.

The RAD, minus any amounts deducted (as agreed) is refunded when the resident leaves the aged care home. However, the DAP is not refunded when the resident leaves the aged care home. A resident can choose a combination of both and has 28 days from entering care to decide on how they wish to pay.

The prices charged by operators are partially regulated by the Federal Government and is a function of the quality, location and features of the accommodation. If a facility wishes to charge more than $550,000 for their RAD, they need to seek approval from the Aged Care Pricing Commissioner.

The final part of the process is to understand what it will cost the resident to continue to live in residential aged care. Again, the government has a regulated formula and it is broken down into three different categories:

- **A *basic fee*** which all residents are asked to pay. For some, this is the only fee that is payable. This fee is used to contribute towards the residents day-to-day living costs such as meals, cleaning, laundry, heating and cooling. From 20 March 2016 to 19 September 2016, the amount is $48.25 per day
- **A *means-tested care fee***. This is an additional contribution towards the cost for care that some residents will be asked to pay. As the name suggests, it is based on an assessment of a resident's income and

- assets. There is an annual and lifetime cap that applies, after which, a resident cannot be asked to pay any more in means-tested care fees.

  The maximum means-tested care fee that a resident can be asked to pay each year is $25,939.92 (the cap is indexed each March and September). The lifetime cap is $62,255.85 (also indexed).

- ***Optional extras fee***, which as the name suggests is not compulsory. A resident may choose to pay such fees if they wish to receive a higher standard of accommodation or additional services. The extra service fees are regulated and aged care homes with dedicated extra services are required to publish their fees to make them available to prospective residents.

  There are other additional care services that an aged care facility can provide such as hairdressing and Foxtel, however, these fees are not regulated and are agreed between the aged care provider and the resident.

Good planning the key

I trust that the article has gone some way to de-mystifying some of the challenges of downsizing your home and having to consider assisted care. While the rules have been very dynamic over the past few years, they have been in the interests of simplicity and ease of understanding.

There are good planning opportunities available both in the lead up. and on entry to, assisted care. There is no substitute for this and I strongly believe that having a solid framework and clarifying outstanding questions and concerns will assist in managing what can be a stressful transition.

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