

DomaCom Equity Release Product

ERP Qualified Adviser



DomaCom.com.au

DomaCom Equity Release Product

Adviser Accreditation Program

Study Guide Module 3

Module 3: Cash Flow and Home Equity Outcomes



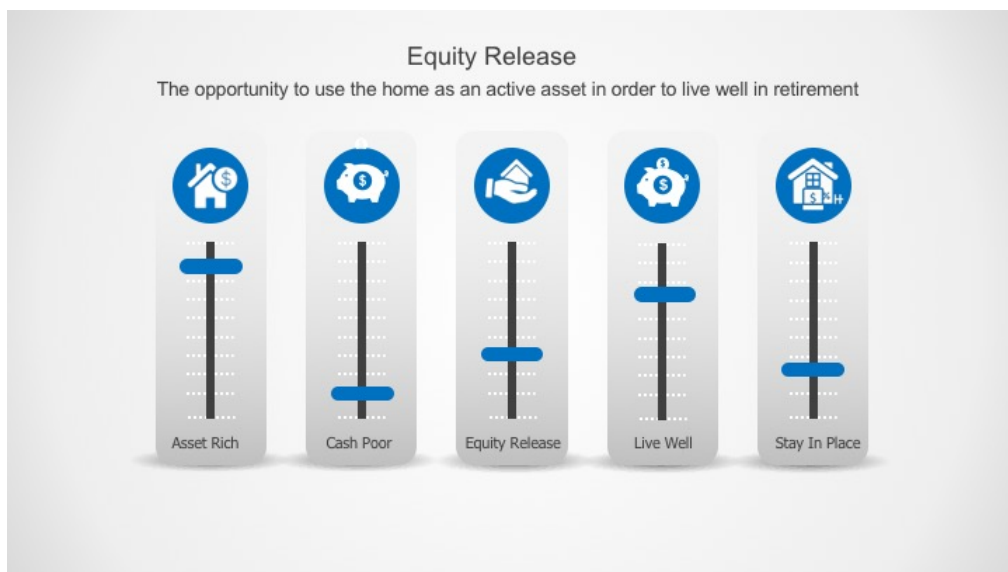
Module 3:

Client Scenarios & Home Equity Projections

Cash Flow and Home Equity Outcomes

Lump Sum or Income Stream

Benefit Entitlement



Knowledge Quiz: How would you explain the Asset Allocation and Retirement Funding outcomes illustrated above:



3.1 Lump Sum or Staggered Settlement?

The Staggered Settlement option may be ideal if the client wants to better manage their personal cash flows in retirement.

3.1.1 Staggered Settlement (Income Stream)

The client can elect to either receive the Pay Out Amount as a single, 'one-off' payment or monthly over a nominated period of time (Staggered Settlement).

Under the Staggered Settlement option, they can, at any time, vary the monthly payments by simply notifying the Fund in writing. These variations include withdrawing up to the total remaining balance in the account (which would bring the Staggered Settlement arrangement to an end).

3.1.2 Home Equity Interest under Staggered Settlement

If the ERP client elects to receive the Pay Out Amount as equal monthly payments over a period of time rather than a single lump sum, the Fund will incrementally acquire an interest in the client's property as each Staggered Settlement payment is made.

Despite this, both the client and the Fund will be liable for their respective share of the costs and expenses under the Equity Release Deed as if the whole Pay Out Amount was paid to the client.

3.2 Impact on Benefit Entitlement

3.2.1 Principal Place of Residence

Legal Aid NSW explains that Centrelink does not count the client's home as an asset when calculating their pension if it is the client's 'principal place of residence' – any residence the client occupies or in which the client has an interest or the right to occupy. The client's principal place of residence is regarded as an 'exempt asset'.

However, this doesn't mean that the client can do anything they like with their home and the client's pension entitlements will stay the same.

The client's pension may be affected if:

- there is a change in the way the client owns property
- there is a change in the client's living arrangements; or
- the client borrows money using the client's home as security

Fractionalising the client's property or borrowing against the equity in the client's home is a change in the client's financial circumstances and should be reported by them to Centrelink within 14 days of any changes to circumstances that may affect the client's pension.

3.2.2 Benefits Entitlement

For people who receive Government Income Support, such as an age pension, consideration should be given to the possible impact equity release products, including the DomaCom ERP, may have on the payments they receive.

The first \$40,000 drawn as a lump sum may not be counted as an asset for 90 days even if it remains unspent.

Where more than \$40,000 is accessed and not immediately spent, the amount in excess is counted is likely to be considered as an asset immediately, with the remaining \$40,000 being counted only after 90 days have expired.

Where the whole amount is immediately spent, unless spent on assessable assets or other assessable transactions, neither the income test nor the asset test is likely to apply.

Any unspent amounts held are a financial investment and subject to deeming under the Income Test.

Where the DomaCom ERP is established as a staggered settlement and the funds are immediately spent through non-assessable transactions, there may be no effect on the Income Test nor the Assets Test unless the funds accumulate in another financial investment.

However, if the staggered settlement is achieved by holding the proceeds of in an 'offset account' or a secondary account and the payments are made from that source

The balance of the offset account is likely to be classed as an asset and subject to deeming for the Income Test.

The key issue for those ERP clients that wish to preserve their benefits entitlement is that they develop a good understanding of their financial needs through careful consideration of the magnitude and timing of their major expenditure intentions and the development of a reliable personal budget.

In this way, ERP clients will focus on drawing down the funding they need, when they need it.

3.2.3 Pensioner Concession Cards

Self-funded retirees are often not entitled to a Pensioner Concession Card.

However, the Commonwealth Seniors Health Care Card can give self-funded retirees who pass an income test, the entitlements that others receive from the Pensioner Concession Card.

This means that self-funded retirees can continue to source good quality investments rather than reduce their assets just to qualify for the card – a practice that had occurred prior to its introduction.

3.2.4 Eligibility for Commonwealth Seniors Health Care Card

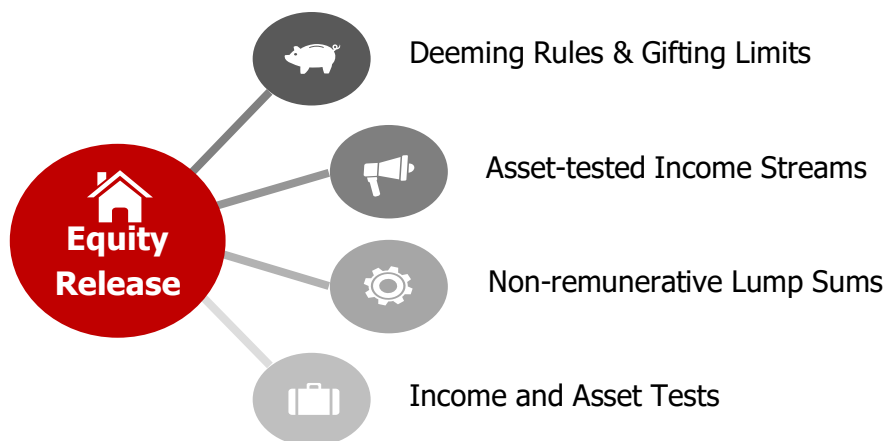
The Commonwealth Seniors Health Care Card is available for people who have attained their Age Pension Age and have an adjusted taxable income not exceeding \$50,000 per annum for Single Person or \$80,000 per annum combined for a 'couple living together.'

The adjusted taxable income limit for a 'couple separated by illness' is \$100,000 per annum.

These income limits are fixed in legislation and not subject to any form of indexation.



www.guides.dss.gov.au



Important:

Regardless of the ERP adviser's expertise, it is often helpful for ERP clients to speak with a Financial Information Service (FIS) Officer from the Department of Human Services to confirm the assessment of the product on Government Income Support payments.

Appointments to meet with DHS FIS Officers can be made by telephoning 13 23 00.



<https://www.dss.gov.au/our-responsibilities/seniors/programs-services/financial-information-service>

3.3 Home Equity Projections

The Information Statement required under ASIC Instrument [18-0926] includes an obligation for the ERP qualified adviser to present the ERP client with Four (4) Home Equity Projections, as follows:

Scenario:

- Home value of \$500,000;
- Homeowner is aged 60 years;
- 20% equity release (i.e. \$100,000); and
- Timeframe of 20 years at 5 year intervals.

Home Equity Projections:

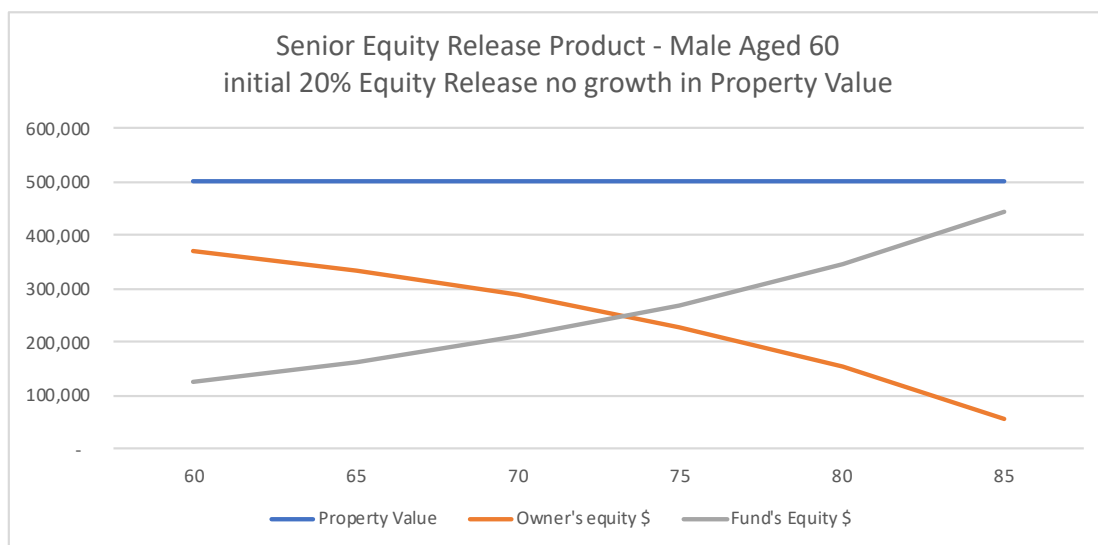
1. Male ERP client no annual growth in home value;
2. Female ERP client with no annual growth in home value;
3. Male ERP client with 3% annual growth in home value;
4. Female ERP client with 3% annual growth in home value;

Information to be Presented:

- ERP Client's Age;
- Property Value;
- Service Fee (cumulative);
- Owner's equity (%);
- Owner's Equity (\$);
- Fund's equity (%); and
- Fund's Equity (\$).

3.3.1 Male ERP Client with No Annual Growth in Home Equity

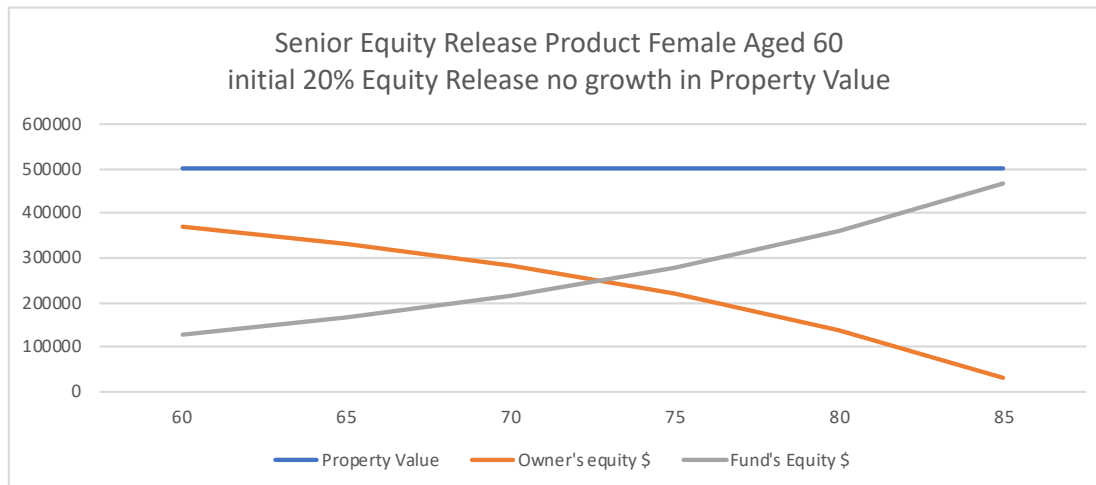
	Drawdown	Year 5	Year 10	Year 15	Year 20	Year 25
Client Age	60	65	70	75	80	85
Property Value	500,000	500,000	500,000	500,000	500,000	500,000
Service fee	28,205	64,365	110,725	170,160	246,359	344,050
Owner's equity (%)	74.4	67.1	57.9	45.9	30.7	11.2
Owner's equity \$	371,795	335,634	289,275	229,840	153,641	55,949
Funds Equity %	25.6	32.9	42.1	38.9	69.3	88.8
Fund's Equity \$	128,205	164,366	219,725	270,160	346,359	444,051



Notes:

3.3.2 Female ERP Client with No Annual Growth in Home Equity

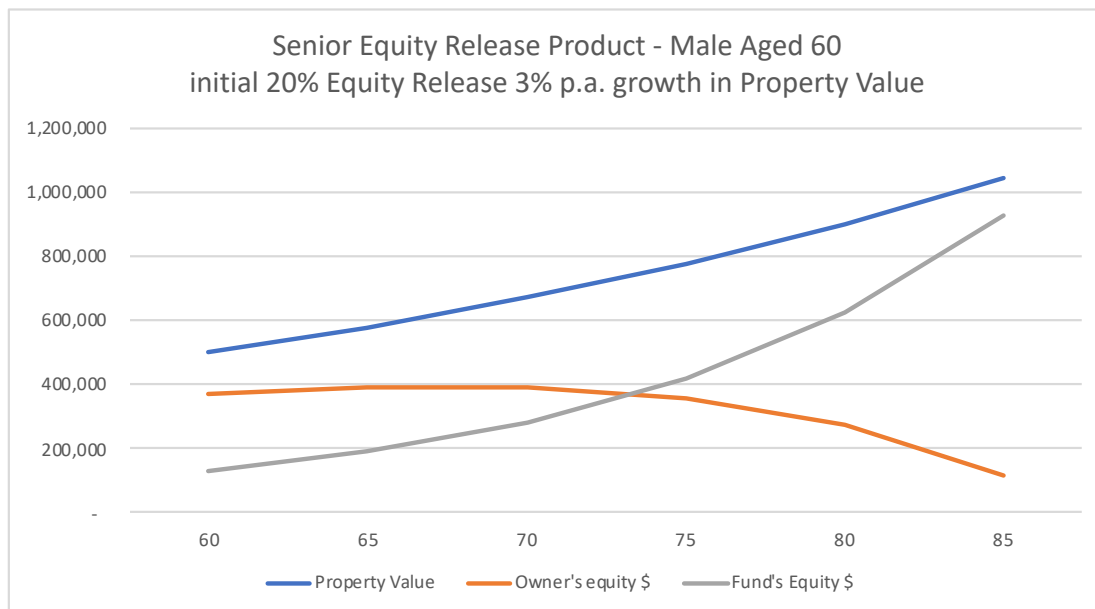
	Drawdown	Year 5	Year 10	Year 15	Year 20	Year 25
Client Age	60	65	70	75	80	85
Property Value	500,000	500,000	500,000	500,000	500,000	500,000
Service fee	29,366	37,990	49,146	63,578	82,249	106,402
Owner's equity (%)	74.1	66.5	56.7	44.0	27.5	6.3
Owner's equity \$	370,634	332,644	283,498	219,920	137,671	31,270
Funds Equity %	25.9	33.5	43.3	56.0	72.5	93.7
Fund's Equity \$	129,366	167,356	216,502	280,080	362,329	468,730



Notes:

3.3.3 Male ERP Client with 3% Annual Growth in Home Equity

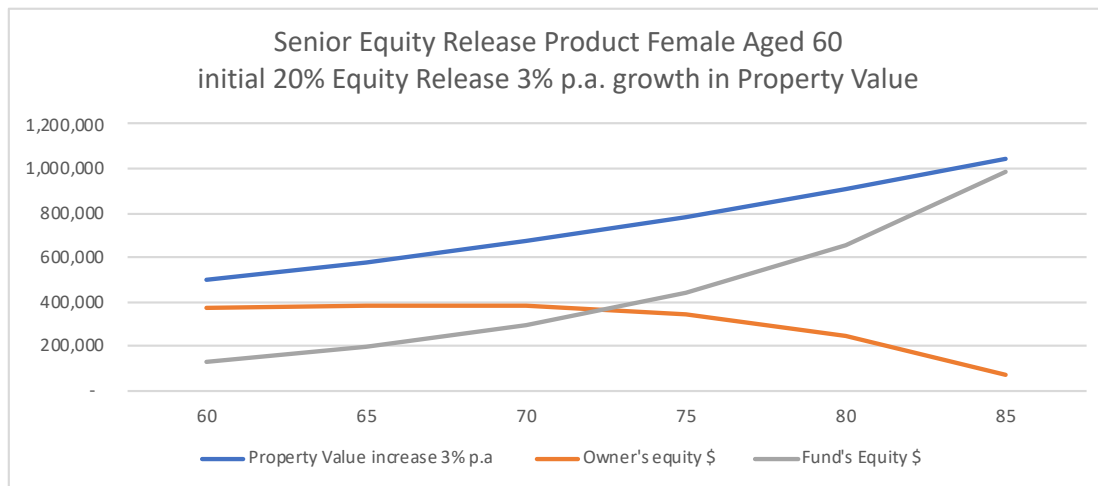
	Drawdown	Year 5	Year 10	Year 15	Year 20	Year 25
Client Age	60	65	70	75	80	85
Property Value	500,000	579,637	671,958	778,984	903,056	1,046,889
Service Fee	28,205	41,920	62,303	92,598	137,624	204,543
Owner's equity (%)	74.36	67.1	57.9	46.0	30.7	11.2
Owner's equity \$	371,795	389,092	388,761	358,083	277,492	117,146
Funds Equity %	25.64	32.9	42.1	54.0	69.3	88.8
Fund's Equity \$	128,205	190,545	283,197	420,901	625,564	929,743



Notes:

3.3.4 Female ERP Client with 3% Annual Growth in Home Equity

	Drawdown	Year 5	Year 10	Year 15	Year 20	Year 25
Client Age	60	65	70	75	80	85
Property Value	500,000	579,637	671,958	778,984	903,056	1,046,889
Service Fee	29,366	44,041	66,048	99,053	148,550	222,782
Owner's equity (%)	74.1	66.5	56.7	44.0	27.5	6.3
Owner's equity \$	370,634	385,626	380,998	342,628	248,650	65,472
Funds Equity %	25.9	33.5	43.3	56.0	72.5	93.7
Fund's Equity \$	129,366	194,011	290,960	436,355	654,406	981,417



Notes:

 Each of the 5 yearly projections from Settlement through to 20 Years, must be presented in the Information Statement, as prescribed by ASIC [18-0926]