

WHEN DOWNSIZING *is the* RIGHT MOVE

TO DETERMINE WHETHER IT MAKES SENSE TO SELL A HOME AND MAKE A DOWNSIZER CONTRIBUTION PURELY TO BOOST SUPER, FIRST COMPARE COSTS WITH A REVERSE MORTGAGE.

Not long after the downsizer superannuation contribution (DSC) legislation was passed, people started asking whether it made sense to sell a home purely to increase someone's superannuation. As usual, there is no definitive answer that applies to every situation.

One point that cannot be debated is that where an individual or a couple have decided to sell their home to downsize, or because they are moving into an aged-care facility or retirement village, the ability to make a DSC is a great improvement on their options under the previous restrictions on super contributions.

Like all strategies, a great deal of analysis and many projections are required when considering whether to recommend a DSC strategy to clients.

When determining whether it makes sense to sell a home purely to make a DSC and increase the amount a client has in super, an adviser must compare this option with one of the few other

alternatives available to retirees now – taking out a reverse mortgage.

One possible downside of selling a home to make a DSC is the costs of selling and purchasing. These costs must be taken into account but they must also be measured against the expense of a reverse mortgage.

Canstar Blue, a customer satisfaction research and ratings business, estimates that the total cost of repaying a \$90,000 reverse mortgage loan, at a loan-to-value ratio (LVR) of 15 per cent, based on average interest rates and average fees paid, is \$91,783 after 10 years, \$259,431 after 20 years, and \$572,131 after 30 years.

Selling costs for homes are, on average, between 2 per cent and 3 per cent of the sale value; purchase costs vary between states, but for properties under \$1 million they are about 4.5 per cent. This means selling a home worth \$1.5 million, and purchasing a replacement home that costs \$900,000, results in a total cost of about \$85,000.

If a reverse mortgage at 15 per cent LVR were taken out on a property worth \$1.5 million, for a period of 20 years, the total interest and borrowing costs capitalised would amount to about \$649,000. Comparing this with a DSC of \$600,000, that earns an average income of 7.7 per cent, with an annual pension drawdown of 7 per cent, the superannuation would grow to about \$689,000.

Another factor that should be calculated is the net effect of making a DSC on the amount of age pension that a client receives, or is entitled to receive. As a general rule, the more the assets test will affect a client, the less advantageous it is to sell a home purely to make a DSC. The table at left shows that the net extra income after making a DSC varies, from \$2702 up to \$36,000. ■

TABLE 1 / Net extra income after DSC

	\$	\$	\$	\$	\$
Couple's combined age pension now	34,819	34,819	33,298	17,698	-
Assets including super now	20,000	200,000	400,000	600,000	830,000
Downsizer contribution	600,000	600,000	600,000	600,000	600,000
Total assets after contribution	620,000	800,000	1,000,000	1,200,000	1,430,000
Extra super income at 6%	36,000	36,000	36,000	36,000	36,000
Less reduction in age pension under assets test	18,681	32,721	33,298	17,698	-
Net extra income after downsizer	17,319	3279	2702	18,302	36,000