canberra times: q&a

Q 1: Should I be looking to prepay my private health insurance before 30 June 2012? I earn around $100,000 pa and my wife earns around $50,000 pa and we are both age 52.

T.K., Canberra

A 1: As a result of the Australian Government decision to income test the receipt of the private health insurance rebate from 1 July 2012 then some people may receive a lower rebate from next financial year. As such, there is an opportunity to prepay your private health insurances for next year and effectively still receive the full current rebate, being 30% for those aged under 65 (35% for those aged between 65 and 69, and 40% for those aged 70 and over). Another benefit is that you can lock in current private health insurance rates now rather than have them increase during the year. The downside is that you need to come up with the cashflow to make the prepayment now.

The new income thresholds and rebates for those aged under 65 from 1 July 2012 will be:

- Unchanged at 30% for singles earning income up to $84,000 pa and families earning up to $168,000 pa.
- 20% for singles earning income between $84,001 pa and $97,000 pa, and families earning between $168,001 pa and $194,000 pa.
- 10% for singles earning income between $97,001 pa and $130,000 pa, and families earning between $194,001 pa and $260,000 pa.
- 0% for singles earning income over $130,000 pa and families earning income over $260,000 pa.

Families income thresholds increase by $1,500 for each dependent child after the first.

On the surface it would appear that you would not lose the rebate as your family income is below the $168,000 threshold. However, you need to make sure you do the analysis based on your income for Medicare Levy Surcharge Calculation Purposes which includes:

- Your Taxable Income (assessable income less deductions)
- Any Reportable Fringe Benefits (on your annual payment summary)
- Reportable Employer Super Contributions (such as salary sacrifice)
- Any Financial Investment Loss (negatively geared shares or managed funds)
- Any Rental Property Loss (negatively geared investment property)
- Any Deductible Personal Super Contributions
- Any Family Trust Distributions and Exempt Foreign Employment Income
- Some lumpsum super withdrawals from a taxed component

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It has been estimated that some 2 million people will have their rebate reduced, so the idea of locking in a rebate now at 30% for premiums relating to next financial year can be beneficial. For families paying premiums of $5,000 pa who would have their rebate reduced to nil from next year would save some $1,500 by prepaying 1 year. Some health funds are allowing prepayments of greater than 12 months so you can lock in even greater rebates let alone avoiding premium increases.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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