Power of Advice Winter 2017

Welcome to the Winter edition of our newsletter,

The new financial year is upon us and, as you are probably aware, some new legislation in regards to Superannuation is now in force. It will now be more difficult to make large contributions to Super just before retirement, encouraging us to start saving for retirement earlier.

This Newsletter includes a couple of articles from Paul Clitheroe. Paul is the former host of the Money Show and is a long-term advocate of plain English advice for everyday people - these articles reflect that.

This quarter we have an article discussing how retirees can utilise the value of their homes to help fund retirement. This is becoming a popular strategy worth exploring for many of us, and may be beneficial for clients who are concerned they won't have sufficient savings to meet living costs in retirement.

We also have articles discussing the advantages of contributing to your partners Superannuation and the advantages of planning.

I hope you enjoy this newsletter and, as always, if you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

All the best,
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Planning is the key to making it financially

If you've paid off your home, have a healthy stash of super and take an overseas holiday each year, you've made it financially. That's the view of many Australians according to recent research.

A study by comparison site Finder found paying off the mortgage is the financial milestone 74% of Australians value most.

Having enough in super to retire comfortably comes a close second for 59% of us, and one in three people see the ability to jet-set overseas each year as a sign of financial achievement.

These are all reasonable goals, and definitely a lot more sensible than owning a sports car, which 5% of people say indicates financial success (for the record, cars are a dreadful investment!).

A plan of action

No matter what your financial goals look like, you've got a far better chance of achieving them with a plan of action in place.

Let's say for instance, that you're keen on paying off your mortgage early. It's a smart strategy that will leave plenty of spare cash to devote to overseas travel. And it can be done.

Start with your loan

The trick is to plan how you'll get there with clear steps you can stick with over time. A good starting point is to check the rate you're paying. The average variable rate is currently 5.3% – that's a terrible rate when you consider there are plenty of loans costing less than 4%.

If you're sure your loan is competitive, one of the easiest yet most effective strategies to be mortgage–free sooner is to pay a bit extra off your loan each month.

On a mortgage of $400,000 with a rate of 4.0%, tipping just $20 more into the loan each week could see you clear the slate 18 months ahead of schedule and pocket savings of $17,217 on overall interest.

Grow your super

If you're keen to grow your super, talk to the boss about contributing to your fund through salary sacrifice. This is where part of your before-tax wage or salary is paid into your super rather than receiving it as cash in hand.

Before-tax contributions are taxed at just 15%, which is below the personal tax rate of most workers, so salary sacrifice can be a very tax-friendly way to boost retirement savings. Chances are, after a few pay days you won't notice the difference in your pay cheque but it can have a valuable impact on your final nest egg.

Think about your money milestones

The start of the new financial year is a good time to think about the money milestones that matter to you – from building a portfolio of investments to starting a successful business or being able to retire early. Don't just nut out some goals though, think about how you will achieve them, and start putting plans in place to make it all happen.

We can help

It's an area where good advice can pay off. We will work with you to prioritise goals, and develop a roadmap of action that helps you work through your personal bucket list.

– by Paul Clitheroe AM

Paul Clitheroe AM, co-founder and Executive Director of ipac securities limited, Chairman of the Australian Government Financial Literacy Board and Chief Commentator for Money magazine.

It pays to contribute to your partner's super

If your spouse is a stay-at-home parent, working part-time or out of work, adding to their super could benefit you both financially.

If your spouse (husband, wife, de facto or same-sex partner) is a low-income earner or not working at the moment, chances are they're accumulating little or no super at all to fund their retirement.

The good news is, if you help by contributing some of your own money to their super, you could be eligible to receive a tax rebate. And, with super rules set to change from 1 June 2017, this tax advantage will be accessible to even more people.

How do I know if I'm eligible?

To be entitled to the spouse contributions tax offset:

- You need to make an after-tax contribution to your spouse's super account
- You must be married or in a de facto relationship. This includes same-sex couples, however if you are a married couple that isn't living together, you won't be eligible
- You must both be Australian residents
- The receiving spouse has to be under the age of 65, or if they are between 65 and 69 they must meet work test requirements
- Before 1 July 2017, the receiving spouse's income must be $10,800 or less for you to qualify for the full tax offset and less than $13,800 for you to receive a partial tax offset
- After 1 July 2017, the receiving spouse's income must be $37,000 or less for you to qualify for the full tax offset and less than $40,000 for you to receive a partial tax offset.

What are the tax benefits?

Currently

If your partner has no source of income or is a low-income earner, you can make after-tax contributions to their super fund and claim an 18% tax offset on up to $3,000.

To be eligible for the maximum tax rebate, which works out to be $540, you need to contribute a minimum of $3,000 and your partner's annual income needs to be $10,800 or less.

If their income exceeds $10,800, you're still eligible for a partial tax offset. However, once their income reaches $13,800, you'll no longer be eligible, but can still make contributions on their behalf.

Also note, what you contribute will count towards your partner's non-concessional contributions cap (the maximum amount that can be put into super after tax). The current limit is $180,000 per year.

From 1 July 2017

The government will increase access to the spouse contributions tax offset from 1 July 2017 by raising the lower income threshold from $10,800 ($13,800 cut off) to $37,000 ($40,000 cut off).

Another thing to be aware of is the after-tax (non-concessional) contributions cap will be reduced from $180,000 to $100,000 per year.

Are there other things I can do?

Another way you can contribute to your partner's super is by splitting up to 85% of your before-tax super contributions, such as employer and or salary sacrifice contributions, as well as personal tax deductible contributions, which you received in the previous financial year.

To be eligible for before-tax 'contributions splitting', your partner must be under 65 and still working.

Amounts that you split between your and your partner's super will also be counted against your before-tax (concessional) contributions cap.

Currently this cap is $30,000 per year, or $35,000 for people age 50 and over. After 1 July 2017, the before-tax contributions cap will be reduced to $25,000 per year, for everyone, irrespective of age.

What my partner and I should know

- If either of you exceed the super cap limits, additional tax and penalties may apply.
- The value of your partner's investment in super, like yours, can go up and down. Before making contributions, make sure you both understand risks tied to your investment options.
- The government sets general rules about when people can access their super. This means if either of you want access to your super, typically you'll need to have reached your preservation age, which will be between 55 and 60, depending on when you were born.

We're here to help

Talk to us about how upcoming super changes could impact you and what opportunities you may be able to take advantage of if you act before 1 July 2017.

Meanwhile, your circumstances and retirement goals will play a big part in the strategy you opt for. And, as the rules around spouse contributions and contributions splitting can be complex, it's a good idea to chat to us to ensure the approach you and your partner take is the right one.

Home equity – the $500 billion resource for seniors

The latest round of figures showing rising home values in almost all our state capitals highlights how many Australian retirees could have a valuable resource at their fingertips.

Older Australians, who may not have enjoyed the benefits of employer-paid super for their entire working life, can face the prospect of a lean retirement. However, one area where over-50s often have an advantage over their younger counterparts is home ownership.

ABS data shows that among the under-35s, there's not much in it between the proportion of renters and those who own their home. Among the over-65s, almost 85% of people are homeowners. This is important because for senior Australians home equity can be a source of retirement income.

It's all thanks to the availability of reverse mortgages – a financial product that allows homeowners, usually aged 60-plus, to draw on home equity with loan funds secured by their home.

No repayments are necessary with a reverse mortgage, at least while you live in the place. Interest charges and fees are added to the loan balance with the total to be repaid when the property is sold or the last borrower has passed away.

It's an option for asset-rich, cash-poor seniors to boost retirement cash. But reverse mortgages do have downsides.

In its January 2017 star-rating report on reverse mortgages, research group Canstar found the average interest rate applicable to these loans is 6.25%. That's around 2% more than you could pay on a standard home loan, and the mounting interest charge raises questions about how a reverse mortgage can impact home equity over time.

Let me start by saying that anyone considering a reverse mortgage should look for a 'no negative equity' guarantee. This means you will never owe more on the loan than the value of your home. That said, Canstar found that after 20 years, a loan for $90,000 representing 15% of a property's value, could end up costing a total of $349,431 including the initial borrowing. Over 30 years, the loan cost including principal, could blow out to $662,131.

These figures may seem alarming, and they are based on current interest rates, which are at record lows. On the plus side, it's a reasonable bet your property will rise in value over the next 20-30 years. The big unknown is whether the capital growth will outstrip the loan's interest rate.

The latest review of the reverse mortgage market by Deloitte estimates Australians over age 65 hold more than $500 billion of home equity, yet only about 40,000 of the nation's seniors have a reverse mortgage. So home equity is definitely an untapped resource. For retirees finding it tough to meet the cost of living, a reverse mortgage may be worth considering. Nonetheless, it is an area where good legal and financial advice is essential, especially if you plan to leave a reasonable estate.

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