Future Financial Planning

WELCOME TO OUR WINTER EDITION OF FFP NEWS

Welcome to Future Financial Planning News - Winter Edition.

As the COVID economic landscape continues to take shape, Australian Federal Treasurer Josh Frydenberg has handed down the 2021-22 Federal Budget.

There are few direct losers in this Budget and many winners - including aged care recipients, parents, business, low and middle income earners, women, downsizers, first home buyers, sinlge parents, older super members, builders, etc.

Among the proposed changes, he announced continuing tax relief for lower earners, help for older Australians to save for retirement, and more assistance for first home buyers.

We will wait and watch as the proposals could change as legislation passes through parliament.

Inside this issue of FFP News we also take a look at the importance of death & disability insurance, 'Transition to retirement' and how it works and ways of boosting your super savings.

Please note our office will be closed on **Monday, 14th June 2021** for the Queen's Birthday public holiday.

Kind regards,

Rhys, Michelle and Michelle

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The importance of Death & Disability Insurance

If you're like most people, you've used debt to finance a range of lifestyle purchases, including the family home.

However, if you die, the loan repayments will still need to be made, even though the salary your family has relied upon is no longer available.

Your loan documents may even contain a clause that requires immediate repayment if you die or become disabled. However, sometimes this is not feasible, and the only option may be to sell the underlying asset to repay the lender. When this asset is your family home, your dependants could be in the unenviable position of either having to re-finance the loan or sell and downgrade their residence.

Maintain your family's lifestyle

You also need to consider whether your family will be able to meet their ongoing expenses.

Death, permanent disability or a serious medical condition can have a big impact on a family's finances and standard of living.

If something should happen to the main breadwinner, the emotional strain could be significant.

If you would like more information regarding different insurance options available to you, please call us today.

Transition to Retirement

A 'transition to retirement' (TTR) strategy lets you access some of your super and keep working.

How transition to retirement works

If you're aged 55 to 60 and still working, you can use a TTR strategy to:

- supplement your income if you reduce your work hours, or
- boost your super and save on tax while you keep working full time

Starting a TTR pension

You can start a TTR pension by transferring some of your super to an account-based pension.

You need to keep some money in your super account to continue to receive your employer's compulsory contributions. Or any voluntary contributions you make.

Government benefits and TTR

Starting a TTR pension may impact your or your partner's government benefits.

Life Insurance and TTR

You may have life insurance with your super. Check if your cover reduces or stops if you start a TTR pension.

Using TTR to reduce work hours

If you want to reduce your work hours, a TTR strategy can top up your income.

Pros

- Continue to receive super contributions - this helps to replace the money you take out.
- Pay less tax - if you are 60 or older, your TTR pension payments are tax free. If you are 55 to 59, your pension is taxed at your marginal tax rate, but you get a 15% tax offset.
- Ease into retirement - you can start planning what you'll do with your leisure time before you retire completely.

Cons

- Affects retirement income - if you start drawing down your super early, you'll have less money when you retire.

Using TTR to save on tax

You can use a TTR pension to grow your super and pay less tax in the lead up to retirement.
This strategy works best if you are 60 or older and a mid to upper income earner.

Pros

- Boost your super - a TTR pension can be used with salary sacrificing to top up your super as you approach retirement.
- Save tax - you pay 15% tax on salary sacrificed contributions. This is likely to be lower than your marginal tax rate.
- Pay less tax on income - if you are age 60 or older, your TTR pension payments are tax free. If you are 55 to 59 you are taxed at your marginal tax rate, but you get a 15% tax offset.

Cons

- Complexity - TTR can be a complex strategy. However educating yourself and taking control of your financial future can help alleviate concerns about retirement. We can help you understand if this strategy is for you, so call us today to discuss your TTR options.

Having a plan and feeling financially prepared can give you peace of mind.
If you need help creating a plan, call us today.

10 ways to boost your super savings

Check out what you could do while you're still earning an income and have time on your side, noting not everyone will be eligible for the government's Age Pension when they retire.

Many of us turn a bit of a blind eye to super. We know it's there and we know it's ours. We just hope, or think, it'll be enough when the time comes. If it isn't, we're probably somewhat familiar with the government's Age Pension and might figure that could be a back-up plan should we fall short.

Little do some of us know that not everyone's eligible for the Aged Pension, and if we are and plan to rely soley on it, we may have to live less than a modest lifestyle in our later years[1].

So, approximatley how much super do we need and how might we boost our super savings, while also making the most of the tax benefits generally available inside the super system? Check out the points below for info, as well as some other important things to be aware of.

How much super do you need?

According to december 2020 figures from the Association of Superannuation Funds of Australia (ASFA), individuals and couples, around age 65, who are looking to retire today would need an annual budget of $44,224 and $62,562 respectively to fund a comfortable lifestyle, or $28,179 and $40,739 respectively to live a modest lifestyle, which is considered better than living on the Age Pension[2].
Note these figures are based on the assumption people own their home outright and are relatively healthy[3].

Super contributions with benefits

1. Tax-deductible contributions

Tax deductable contributions are voluntary contributions you may choose to make on top of what your employer might pay you under the super guarantee, if you're eligible.

You make these contributions using after –tax dollars (such as when you transfer funds from your bank account into your super) and then claim a tax deduction for them when you're doing your tax return.

Putting money into super and claiming it as a tax deduction may be of benefit if you receive some extra income that you'd otherwise pay tax on at your personal income tax rate (as this may often be higher).

Similarly, if you've sold an asset that you have to pay capital gains tax on, you may decide to contribute some or all of that money into super, so you can claim it as a tax deduction. This could help reduce or even eliminate the capital gains tax that's owing altogether.

2. Co-contributions from the government

If you're a low to middle-income earner and made an after-tax contribution to your super fund, which you don't claim a tax deduction for, you might be eligible for a government co-contribution of up to $500.

If your total income is equal to or less than $39,837 in the 2020/21 financial year and you make after-tax contributions of $1,000 to your super fund, you'll receive the maximum co-contribution of $500.

If your total income is between $39,837 and $54,837 in the 2020/21 financial year, your maximum entitlement will reduce progressively as your income rises.

If your income is equal to or greater than the higher income threshold $54,837 in the 2020/21 financial year, you will not receive and co-contribution.

3. Spouse contributions

If you're earning more than your partner and would like to top up their retirement savings, or vice versa, you may want to think about making spouse contributions.

If eligible, you can generally make a contribution to your spouse's super fund and claim an 18% tax offset on up to $3,000 through your tax return.

To be eligible for the maximum tax offset, which works out to be $540, you need to contribute a minimum of $3,000 and your partner's annual income needs to be $37,000 or less.

If their income exceeds $37,000, you're still eligible for a partial offset. However, once their income reaches $40,000, you'll no longer be eligible for any offset, but can still make contributions on their behalf.

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1,2,3 - Association of Superannuation Funds of Australia's Retirement Standard (https://www.superannuation.asn.au/resources/retirement-standard) December 2020 figures

4. Salary sacrifice contributions

Salary sacrifice is where you choose to have some of your before-tax income paid into your super by your employer, on top of what they might pay you under the super guarantee.

It does mean a reduction in your take-home pay. However, as you'll only be taxed 15% on the money you salary sacrifice (or 30% if your total income exceeds $250,000), for most Aussies that means you'll generally pay less tax on your salary sacrifice super contributions than you do on your income.

5. Downsizer contributions

People aged 65 and over can make a voluntary contribution to their super of up to $300,000 using the proceeds from the sale of their home (if it's their main residence) - regardless of their work status, super balance, or contributions history.

For couples, both people can tak advantage of this opportunity, which means up to $600,000 per couple can be contributed toward super. There are however, potential advantages, rules and other things you'll want to be across.

Additional pointers

6. Find your lost super

If you've changed jobs, your name or address over the years, or worked part-time or casual jobs, there's a chance you may have lost track of some of your super.

If so, you may be paying multiple sets of fees for different super accounts. It's worth checking if the ATO may be holding some unclaimed super on your behalf as well.

7. Consider whether consolidating your super could be worthwhile

There may be advantages to rolling multiple super accounts into one, but there are things to consider:

Potential benefits - one set of fees, less paperwork and admin, and it may be easier to manage in investment strategy that meets your specific needs.

Potential pitfalls - some funds may charge exit or withdrawal fees, there could be tax implications, and you may lose some features and benefits your currently have, such as insurance cover.

8. Are you elgible for the low-income super tax offset?

If you earn $37,000 or less annually, and your employer makes super contributions on your behalf, the government may refund the tax that was paid on those contributions back into your super account, up to a maximum of $500 per year.

If you're eligible for the low-income super tax offset, the good news is it will be automatically calculated by the ATO and deposited in your super account after you lodge your tax return.

9. Review your investment option

Most super funds allow you to choose from a range or mix of investment options and asset classes, and choosing the most suitable option will typically come down to your attitude to risk and the time you have available to invest.

If you're young, you may have more time to ride out market highs and lows, and therefore be willing to take on more risk in the hope of achieving higher returns. Whereas if you're closer to being able to access your super, you may prefer a conservative approach, as a share market crash could be harder to recover from.

10. Look into other important aspects of your super

Your super should be working for you, so it's important to review it at least once a year and check things like - fund performance (noting, past performance isn't an indicator of future performance), any fees you might be paying and any insurance you might have inside your super and whether is suits your current needs.

Important things to consider

- There are limits on how much you can contribute. If you exceed super contribution caps, additional tax and penalties may apply.
- If you're over age 67 and wanting to make voluntary super contributions, a work test applies, whereby you must've worked for at least 40 hours within a 30-day period, unless you're elgible for the recent retiree work test exemption.
- The value of your investment in super can go up and down. Before making extra contributions, make sure you understand and are comfortable with any potential risk you might be taking on.
- The government sets general rules around when you can access your super, which typically won't be until you reach your preservation age and meet a condition of release, such as retirement.

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