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QUARTERLY INSIGHT
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Reviewing a Winning Retirement Strategy

The frenzy and speculation currently being created in the media around superannuation, retirement and age pension is nothing unusual.

Over the years there has been a constant stream of legislation, introduced in the spirit of refining the "Three Pillar Retirement System". If you are extremely desperate and have a couple of hours, you can go to the Parliament of Australia website and search for the legislative changes and parliamentary committee reports that relate to Superannuation and Age Pension. If you do, you will notice that 90% of these, (51 of the 57 pages since 1900), refer to the changes since 1983.

What does this all mean? It does illustrate that change is constant and that should come as no surprise. It does not mean, as I have heard some people say, that superannuation is a flawed method of saving for your retirement. In fact, it may be argued that the very reason the current changes have been heralded is because the system is currently too good in producing tax-effective income and as a result a limit is being imposed.

The government's objective, along with any speculated legislated change, is to ensure we view superannuation as it was originally intended, the vehicle of choice for retirement planning and not necessarily the vehicle of choice for tax planning.

The balancing act for the government will be ensuring that superannuation remains an attractive option for people planning and saving for their retirement, without becoming so onerous and complicated that people lose confidence and no longer see any value in planning and saving for their retirement.

The legislative changes that have occurred over the years have not been confined to superannuation. During this time, the age pension has also been subject to constant refinement, from removal of the means test in 1972 for retirees over 75, to the abolition of the assets test completely in 1976 and its reintroduction in 1984, through to the proposed changes to the assets test from 1st January 2017.

The revolving changes make it difficult to implement a rock solid plan that will guarantee you the income you wish for in retirement. You'll note I said difficult… not impossible.

The important thing to remember is not to rely on your well-meaning neighbour, or the proliferation of tele-experts on your favourite current affairs program, or someone you have spoken to at a party or barbeque for advice. Now, more than ever, it is extremely important to have a plan prepared by a professional and review that plan on a regular basis, taking into account legislative changes and movements in investment markets.

Regardless of the current frenzy of speculation over possible future legislative changes, one fact remains. A well-researched and professionally prepared plan is a must to ensure your retirement is all you wish for.

Borrowing to Invest– Buy Now, Pay Later...

Average Australian household debt has quadrupled over the last three decades, according to the latest AMP/NATSEM income and wealth report – *Buy now, pay later: Household debt in Australia*, with average Australian household debt rising from $60,000 in 1988 to $245,000 (after inflation). This is growth of 5.3% above inflation each year, far outstripping income growth of just 1.3%. In addition, the ratio of household debt to disposable income has almost tripled, from 64% to 185% over the same period.

The report cites declining interest rates, low unemployment and a strong economy as the main factors driving Australians to take on more debt, as the impact of average repayments have been cushioned.

Debt levels for first home buyers have risen to 3.6 times their annual disposable income, up from 3.1 in 2004. For the typical first home buyer, a 2.5 percentage point rise in interest rates would increase interest repayments as a percentage of disposable income from 21.2% to 30.2%, or an extra $8,047 a year.

According to the report, 90% of Australian household debt is being used to buy a home or to build wealth through investing. Just over 50% of household debt relates to a home mortgage and almost one third related to investing in rental properties or borrowing for shares.

Australian households now have the fifth highest debt levels in the world, with more average household debt than comparable economies like Canada.

Looking at these figures in context, it is important to note that not all debt is bad for building wealth.

Good Debt or Bad Debt...

At its most basic definition, debt is simply the process of one party borrowing money from another party. Under this definition, debt sounds neither good nor bad.

We borrow with the promise and expectation of repaying the borrowed funds sometime in the future. In this sense, all debt is the same. However, because debts can have positive or negative consequences, they are typically thought of as good debt or bad debt.

What is Considered Good Debt?

There's no better example of the old adage, "it takes money to make money", than good debt.

In general, good debt is that which helps you generate income and/or increases your net worth. Good debt allows you to manage your finances more effectively, to leverage your wealth and to manage unforeseen emergencies.

Examples of good debt are taking out a mortgage for a property or investing in yourself by borrowing to invest in your education.

What is Considered Bad Debt?

In contrast, bad debt is that which does not increase wealth and/or is used to purchase goods or services that decrease in value. You can put yourself into crippling debt too easily by not restraining yourself from buying luxuries that exceed your income or your ability to repay the debt in a timely manner.

Bad debt can also be any form of debt that carries a high interest rate. Making only the minimum payments on your high-interest credit cards while continuing to keep balances on your accounts month after month, is the most common form of bad debt. The total amount you pay in interest, fees and any penalties can easily exceed the value of your initial purchase.

Understanding the difference between good and bad debt could help you make better financial decisions.

SUPERANNUATION FACT

In 2015 there were more than 30 million super accounts. Superannuation assets in aggregate were $2,046 billion at the end of the December 2015 quarter, and the APRA-regulated sector average for investment returns was 5.1 per cent over the year to the December quarter.

NUMBER OF SUPER ACCOUNTS BY AGE

AGE	1 ACCOUNT	2 OR MORE ACCOUNTS
18 or under	96%	4%
19 to 24	64%	36%
25 to 30	51%	49%
31 to 35	49%	51%
36 to 40	48%	52%
41 to 45	49%	51%
46 to 50	50%	50%
51 to 55	52%	48%
56 to 60	56%	44%
61 to 65	62%	38%
66 or over	79%	21%

LOST AND ATO-HELD SUPER

As at 31 December 2015, there were a total of just over six million lost and ATO-held accounts with a total value of just over $16 billion. Lost uncontactable and lost inactive accounts are still held by super funds, whereas unclaimed super money and superannuation holding accounts have been transferred to the ATO.

CATEGORY	ACCOUNT VALUES ($MILLION)
Lost uncontactable	5,828
Lost inactive	7,698
Unclaimed (general, small and insoluble)	2,048
Unclaimed (temp resident)	579
Superannuation holding accounts (SHA) active	78
SHA inactive (consolidated revenue)	13
TOTAL	16,244

Individuals who have changed jobs, worked casually in the past or changed address may have lost track of accounts without knowing it. If you know anyone who may be in this situation, you can suggest they create a myGov account and link to the ATO. For more information, refer to “Check your Super” at www.ato.gov.au/calculators-and-tools/check-your-super.

2016 Federal Budget

In a break from tradition the 2016 Federal Budget was brought forward by a week. With the subsequent early call of the election, it is unlikely any of the measures will be legislated whilst the government is in caretaker mode.

Keeping in mind these changes are yet to be legislated, what did the budget have to say?

TAXATION

Personal tax rate

The budget included an announcement that the income threshold at which the 37 per cent tax rate cuts will increase from $80,000 to $87,000. As a result, Australian workers on average weekly earnings will avoid 'bracket creep' and will not advance to the second highest marginal tax bracket. This tax adjustment is due to apply from 1st July 2016.

Company tax rate

Currently the company tax rate is 28.5% for companies with turnover of less than $2,000,000, and 30% for larger companies. The budget proposes to progressively reduce the company tax rate to 25% by 2026-27. Commencing 1st July 2016, companies with turnover of less than $2,000,000, will see their tax rate reduce by 1% to 27.5%.

Small business

A small business is currently defined as one with annual turnover of less than $2,000,000. From 1st July 2016, the definition of a small business will be extended to businesses with a turnover of less than $10,000,000. This will then enable them access to the concessions available to businesses that fall within this definition, including a lower rate of company tax rate and simplified depreciation rules.

However, for purposes of accessing the small business capital gains tax concessions, the current turnover threshold of $2,000,000 will be retained.

Unincorporated small business tax discount

Unincorporated small businesses currently receive a 5% discount on the tax they pay. The budget included a proposal that will see this discount progressively increase to 16% over the coming years. The discount will increase to 8 per cent from 1 July 2016.

COMMENCING	DISCOUNT
1st July 2016	8 %
1st July 2017	10 %
1st July 2025	13 %
1st July 2026	16 %

MEDICARE LEVY SURCHARGE AND PRIVATE HEALTH INSURANCE REBATE THRESHOLDS

Effective 1st July 2018, the indexation of the income threshold will be frozen for a period of three years.

SUPERANNUATION

The 'big ticket' item in this year's budget is the proposed changes to superannuation. This year's announcements are probably the most significant since the superannuation reforms that took effect from 1st July 2007. Except for a couple of notable exceptions, the proposed budget changes will take effect from 1st July 2017, subject to being legislated.

Concessional superannuation contributions

Concessional contribution caps of $30,000 (or $35,000 for over 49) will continue until 30th June 2017. From 1st July 2017 the concessional contribution cap will reduce to $25,000.

People with less than $500,000 in super who have not utilised all their full concessional contribution cap ($25,000) in a financial year will be able to carry forward any unused cap and make additional contributions in following years. Unused concessional contribution amounts can be carried forward for up to five years. This initiative is designed to assist people who are unable to maximise their concessional contributions for a variety of reasons including affordability, unemployment, and career breaks.

Low income superannuation tax offset

Low income earners (less than $37,000 annually) currently receive a Low Income Superannuation Contribution from the government of up to $500 to compensate for the 15 per cent tax paid on their superannuation guarantee contributions. This is due to cease from 1st July 2017 and be replaced with a new non-refundable tax offset of up to $500.

Low income spouses

From 1st July 2017, the existing low income spouse superannuation tax offset of up to $540 will be enhanced with the income threshold for the spouse for whom a contribution is made, being increased from $10,800 to $37,000.

Contributions for older Australians

Currently superannuation contributions can only be made by people aged between 65 and 74 if they meet a 'work test' in the financial year in which contributions are made. The work test requires they be gainfully employed, or self-employed for a period of at least 40 hours, worked within a period of 30 consecutive days.

One of the positive budget announcements was the intention to remove the work test requirement, due to be removed from 1st

Will this budget get your vote?

July 2017. However, there is no change to allow people over the age of 74 to make or receive contributions to super, other than mandated employer contributions.

Tax deductibility of super contributions

Currently a person may only claim a tax deduction for personal super contributions if they derive less than 10 per cent of their assessable income (+ reportable fringe benefits and reportable superannuation contributions) from employment.

The budget proposes that anyone under the age of 75 will be able to make tax deductible personal contributions, irrespective of their age or work status. This change is proposed to take effect from 1st July 2017. However, consideration needs to be given to the concessional contribution cap and any employer contributions that may also be made. Furthermore, a tax deduction for personal contributions cannot create a carried forward tax loss.

Non-concessional contribution lifetime limit

The current non-concessional contribution limit is $180,000 per annum. The budget has proposed replacing this with a lifetime non-concessional contribution limit of $500,000.

Even though legislation has not been introduced, it is proposed this change will take effect from 3rd May 2016. To complicate matters even further, it is proposed that any non-concessional contributions made since 1st July 2007 will be assessed against the lifetime cap.

Extension of tax on super contributions for high income earners

Those Australians earning more than $300,000 currently pay an additional 15 per cent tax on their concessional superannuation contributions, bringing the total tax rate to 30 per cent. This is referred to as 'Division 293 tax'. It is proposed that effective from 1st July 2017, the threshold at which this tax becomes payable will be reduced from $300,000 to $250,000.

Super pension limitations

Currently money transferred to the pension phase of superannuation is concessionally taxed. That is, a superannuation fund pays no tax on the income it earns on investments that are supporting pension payments.

In the budget, the government announced restrictions will be placed on the amount that can be held in the pension phase of superannuation. The proposed limit is $1,600,000. Amounts in excess of this will need to either be withdrawn from super, or may be retained in an accumulation account with investment earnings being taxed at 15 per cent.

This proposal is retrospective, in that people already drawing income from a pension that has a value of more than $1,600,000 as at 1st July 2017, will need to transfer the excess over $1,600,000 back to an accumulation account.

Anti-detriment payments

An anti-detriment payment is an additional benefit that may be paid from a superannuation fund on the death of a member, where the benefit is paid as a lump sum to an eligible dependent beneficiary. It is proposed that anti-detriment payments be abolished from 1st July 2017.

Transition to retirement pensions

It was expected that the budget would introduce restrictions on the use of pre-retirement, or transition to retirement (TTR) pensions – and we were not disappointed. However, the approach the government has taken on TTR pensions was not as expected.

From 1st July 2017, investment earnings derived by a super fund that is paying a TTR pension will not be tax exempt to the super fund. Investment earnings of the super fund will be taxed in the super fund at a rate of 15 per cent, instead of the current 0 per cent.

What affect this has on the viability of TTR pensions in the future remains to be determined. However, on the surface, they will remain a relevant part of the pre-retirement landscape.

HEALTH, WELFARE AND AGED CARE

Renting out the family home

As already announced, when a person in residential aged care rents their former home, the house and rent will be included in assets and income testing when determining entitlement for an age and service pension. This measure will only apply to new residents entering residential aged care from 1st January 2017.

My Aged Care Contact Centre

Additional funding has been provided to support services provided by the My Aged Care contact centre.

Disability Support Pension (DSP)

90,000 DSP recipients will have their eligibility reassessed over the next three year to determine their continued eligibility for a DSP.

Child and Adult Public Dental Scheme

Introduction of the new national scheme available to children and adults covered by a concession card.

Medical Benefits Schedule

Fees frozen under the previous budget are to be extended for a further two years.

CONCLUSION

Whilst most of the initiatives announced do make sense, the initiatives announced in the budget are subject to their successful passage through parliament.

With most of the announcements, we have over a year to digest the implications and develop alternative strategies, where appropriate.

SENIOR FRAUD PREVENTION

SLAM THAT SCAM

Globally fraudsters scam more than a million seniors each year. Fraud on seniors can happen by phone, mail and in person, or less commonly, the internet (as seniors are online in smaller numbers). It can happen to wealthy seniors, and those of limited means. Seniors should stay informed about tactics and strategies used by swindlers, and beware of offers that sound too good to be true.

Seniors are available because they tend to be retired and at home with time to answer their phones and read their mail. Seniors grew up in a more polite time when they thought it was rude to hang up on someone and there is the issue of being alone or lonely, so they're more likely to talk to strangers.

AVOIDING PHONE FRAUD

Fraudsters will change from one persuasion tactic to another if necessary. The theory is that the longer we're on the phone, the more likely we're going to do business, legitimate or otherwise.

Here are some ideas from the National Crime Prevention Centre guide on senior fraud prevention, highlighting five tactics to make unwanted telemarketers go away.

TIP #1:	Never give personal information, such as bank account or social security numbers, to anyone over the phone, unless you initiated the call and know you've reached the right agency.	**Reply:** "I don't give out personal information over the phone. I'll contact the company directly."
TIP #2:	Don't believe it if the caller tells you to send money to cover the "handling charge" or to pay taxes.	**Reply**: "I shouldn't have to pay for something that is free."
TIP #3:	"Limited time offers" shouldn't require you to make a decision on the spot.	**Reply:** "I'll think about it and call you back. What's your number?"
TIP #4:	Be suspicious of anyone who tells you not to discuss the offer with someone else.	**Reply:** "I'll discuss it with my family and friends and get back to you."
TIP #5:	If you don't understand all the verbal details, ask for it in writing.	**Reply:** "I can't make a decision until I receive written information."

Practice these replies with your loved ones. Tape it by their phone and they will always have a polite-but-firm response for unscrupulous callers. (Of course, the best way to get rid of someone you don't want to talk to is to simply hang up.)

Most telemarketers can tell when they've got an older person by the voice or inflection of the voice and they will take advantage of it. Fraudulent telemarketers may also use a senior's forgetfulness against them. The scammer may tell their target they are with a well-known charity or organisation and the senior has forgotten to send payment.

Also, have your loved one tell telemarketers to take his or her name off their call list. If the telemarketers don't, they're breaking the law. Sign up for the national Do Not Call Register at www.donotcall.gov.au. As a last resort, get your loved one an unlisted phone number.

If you've spotted a scam, you can also spread the word, tell your family and friends, and report it to SCAMwatch at www.scamwatch.gov.au.

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