

# Advice Matters



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## Economic and market update

Bob Cunneen, Senior Economist and Portfolio Specialist | 6 July 2017

### How did markets perform in June?

Global shares made modest gains of 0.3% (in local currency terms) in June given signs from various central banks of the prospect for higher interest rates. The stronger Australian dollar (AUD) in June lowered the global shares (unhedged) return to -2.5%

US shares achieved record highs again in mid-June given optimism over President Trump's bold promises of corporate tax cuts, higher infrastructure spending and less regulation. However US shares faded to a mild monthly gain of 0.6% given concerns that some of President Trump's promises will either be abandoned or delayed. Also weighing on US shares were comments from Federal Reserve (Fed) officials that share valuations were "rich". The Fed raised interest rates by 0.25% for the second time this year, citing solid consumer spending and jobs growth.

European shares fell sharply by 4% in June. European Central Bank (ECB) President Mario Draghi stated that policy will be "adjusted" as the European economy "continues to recover". This is a signal that the ECB easy policy stance is coming to a close. UK shares weakened with the Conservative Party losing their parliamentary majority at the general election and the Bank of England signalling that interest rates may need to rise given inflation risks.

Asian shares proved resilient. Stable Chinese business surveys and solid activity data were supportive of Chinese shares. Japanese shares made mild gains given encouraging business survey results and a weaker yen.

Australian shares posted a mild 0.2% gain in June (S&P/ASX 200 Accumulation Index). Sharp gains were recorded for the Health Care sector (6.1%) while Financials rebounded (1.6%). However these gains were offset by notable weakness in the Energy sector (-6.9%) given lower oil prices while Australian Real Estate Investment Trusts (A-REITs) declined 4.8% given rising bond yields.

The AUD rallied sharply in June given the rebound in commodity prices, particularly iron ore which rose from US\$57 to US\$64 per tonne.

### What were the key factors driving markets?

The major themes driving markets in June continued to be President Trump's bold stimulus promises and signals from the US and European central banks that interest rates are set to rise.

Optimism over President Trump's policy agenda has been supportive of US shares. However financial markets are still awaiting the specific detail of these policies. The Fed is expected to continue raising interest rates over the next year while the ECB has signalled that their easy policy stance is coming to a close.

The British general election, as well as North Korea's nuclear ambitions, were the key political concerns in June.

In Australia, our economic activity remains modest and mixed. While retail spending seems to be improving, housing construction appears to be slowing. Australia's jobs growth has improved with the unemployment rate edging lower to 5.5%.

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Financial Planning



# SUPER CHANGES

## – where to from here?

### What is the transfer balance cap?

The amount that can be transferred from your accumulation super account to a retirement income account is capped at \$1.6 million. It's a lot of money, and you may not have that much in your super account, but what you might not realise is how much you have across a number of superannuation funds.

We've been talking about consolidating super for such a long time, and being efficient with the fees you are paying across multiple accounts. But the other benefit of consolidation is that it may be much easier to keep track of your superannuation balances.

You have until 31 December 2017 to rectify a transfer balance cap breach if your retirement income stream balances were between \$1.6 million and \$1.7 million on 30 June 2017.

### Can I still make a big one-off contribution into my super?

2016/2017 financial year was the last chance you had to make a one-off contribution of up to \$540,000 into your super fund. If you haven't already taken advantage of the three-year bring forward rule (which rolls up three years of non-concessional contributions into one), and were 64 or under on 1 July 2016, you could have made a non-concessional (after-tax) contribution of up to \$540,000 into your super account.

As of July 1 2017, the non-concessional contribution cap reduced to \$100,000 from \$180,000. Not everyone can afford to contribute up to \$540,000 in one year, but anything you had contributed above

\$180,000 in 2015-16 or 2016-17 would have triggered the transitional bring-forward rules. From July 1 2017, the bring-forward rule will be based on the new lower cap of \$100,000 per year. It means, when eligible, you could still contribute up to \$300,000 in one financial year. The bring-forward opportunity is only available to you if you were 64 or younger on 1 July 2017 and your total superannuation balance is less than \$1.4 million on 30 June 2017. For those who turn 65 in a financial year, you would need to meet the superannuation based work test, if contributing when you have already turned 65. You won't be able to make any non-concessional contributions if your total superannuation balance is \$1.6 million or more on 30 June 2017.

### What should I do about the reduction in the concessional contributions cap?

From July 1, the cap on concessional contributions will be reduced to \$25,000 from \$30,000 for people under 50, and to \$25,000 from \$35,000 for those 50 years and older. These contributions are taxed at the concessional tax rate of 15%. If you earn more than \$250,000, an additional 15% tax may apply on your concessional contributions.

Many people focus on paying down the mortgage, and expect to worry about super closer to their retirement. But from 1 July, the lower caps mean people won't be able to accelerate contributions to the same extent as they approach retirement.

It will always be important to consider paying

down non-deductible debt but in light of the reduced contribution caps it may also be worth considering putting a little more of your salary or savings into super each year if you can afford it.

### I'm self-employed. Will it now be easier to make tax-deductible contributions to super?

The good news is that the answer to this is yes. Previously, you needed to show that less than 10 per cent of your income came from employment to be able to make a personal contribution to super and claim a tax deduction. But that requirement will be removed from 1 July.

This is a fantastic one because it is really responding to the change in work patterns. It provides two opportunities. One is to the self-employed who have a mixture of self-employment and employee income, but it is also good for those people who are employed but whose employers don't allow them to salary sacrifice or who prefer making personal deductible contributions rather than salary sacrifice.

If you decide to take advantage of this measure, make sure you remember to notify your super fund of your intention to claim these contributions as a tax deduction.

### Need help?

Since there is such a lot of detail and so many changes, it's important to seek financial advice tailored to your situation and needs. Contact your financial planner today.





Counting the cost of a

# curve ball

**Here's a confronting question:** what would you do if the main breadwinner in your household could no longer bring in an income? Do you have a Plan B? Most people don't. That's where insurance comes in.

**Curve balls.** They're unexpected, often deceptive and it's impossible to predict their trajectory. That's why they're so devastating – in sport and in life. There's some interesting data now available about the kind of curve balls that can impact your life, your finances and your retirement.

The headline figure is this: one in three Australians could be disabled for more than three months before turning 65.<sup>1</sup> If you combine this with another startling fact – that 60% of Australian families with dependents will run out of money if the main breadwinner can no longer bring in an income – you can see the problem. Curve balls are pretty common, but so few people are prepared for them.

With the mortgage to pay, school fees to fund and day-to-day living expenses to meet, you could run down your savings very quickly and face financial difficulty.

The table below shows what's at stake in terms of potential earnings to age 65. For example, if you are currently 45 and earn \$80,000 per annum, you could earn around \$2.15 million over the next 20 years. Isn't that worth protecting?

Current income (per annum)	Age now			
	25	35	45	55
\$40,000	\$3,020,000	\$1,900,000	\$1,070,000	\$460,000
\$60,000	\$4,520,000	\$2,850,000	\$1,610,000	\$690,000
\$80,000	\$6,030,000	\$3,810,000	\$2,150,000	\$920,000
\$100,000	\$7,540,000	\$4,760,000	\$2,690,000	\$1,150,000

**Assumptions:** Income increases by 3% per annum. No employment breaks. Figures rounded to nearest \$10,000.

## What kind of Plan B do you need?

The last thing you need to worry about when you're dealing with a curve ball is your finances. That's where insurance comes into its own. It's a well-known saying that you only realise the value of insurance when you need it – and you don't have it.

Taking out Income Protection insurance could provide you with a monthly benefit of up to 75% of your income to replace lost earnings while you recover.

Most Income Protection policies offer a range of waiting periods before you start receiving the insurance benefit (with options normally between 14 days and two years). You can also choose from a range of benefit payment periods, with a maximum cover generally available up to age 65.

## Other things to consider

- Income Protection insurance premiums will generally be lower if you choose a longer waiting period and shorter benefit payment period.
- If you don't have sufficient cash flow to fund the Income Protection premiums, you may want to arrange the cover in superannuation, where the cost will be deducted from your account balance.
- Other curve balls you may want to insure for include critical illness (such as cancer and stroke), total and permanent disability and death. These curveballs can be covered by different types of life insurance, which you may want to consider.

## To find out more, contact your financial adviser.

<sup>1</sup> Calculations based on data from the Institute of Actuaries of Australia 2000. Interim Report of the Disability Committee. IA Aust: Sydney.



# PLAN AHEAD for the *aged care* you want

**Early planning can take away a lot of the stress and uncertainty that can arise when considering aged care at home or a residential aged care facility.**

## **Know what your options are**

The first option that probably comes to mind is a residential aged care facility. These facilities provide accommodation and care depending on your personal needs. Care can range from personal care, such as help with showering and dressing, together with occasional nursing care to continuous nursing care for those with a greater degree of frailty.

What you may not realise, however, is that there are also Home Care Packages that provide access to services that can help you to stay at home for as long as possible. Support services may include cleaning, meal preparation and transport for shopping or appointments.

## **Start planning early**

There are a number of reasons why you should plan ahead and well before the need for aged care is imminent. For example:

- in many cases, the need to move into residential care can be sudden due to a serious illness or injury (eg a stroke, heart attack, or fall), or another unexpected event
- it's not uncommon to find there are significant waitlists for residential care,

particularly at the more popular facilities, and

- regardless of whether home or residential aged care is required, if you wait until the last minute to speak to a financial adviser, you may not be able to minimise the fees you may have to pay and/or maximise the social security benefits you may receive.

## **Visit local facilities**

Whether you currently need residential aged care or not, ideally you should plan to visit a range of facilities in your chosen area as soon as possible and, you may prefer to do this with family members.

Becoming familiar with the alternatives can enable you and your family to have meaningful conversations regarding your options and make more informed lifestyle and financial decisions.

Importantly, with assistance from a financial adviser, you can:

- determine whether care in your preferred facility is affordable, and
- potentially start restructuring your assets to improve your financial position.

## **Assess affordability**

A range of fees may be payable when accessing care services. One of the key payments when moving into residential care is the accommodation payment. This payment:

- is subject to certain limits
- can be paid as a lump sum, in regular instalments, or a combination of a lump sum and regular instalments, and
- is published on the facilities website and at [myagedcare.gov.au](http://myagedcare.gov.au) for potential residents to consider.

The published amount will vary between facilities and, as a general rule, it will be higher for newer places because of the money recently outlaid on building or improving the accommodation, and for facilities in more affluent suburbs.

It's therefore important to ensure you will have sufficient assets to pay the accommodation payment required to secure yourself a spot in your facility of choice when the time comes, as well as cover the ongoing aged care fees and your living expenses.

## **Understand the trade-off**

There are a range of strategies that can be used to reduce aged care fees. However, caution needs to be exercised to ensure you have enough money to afford the care you'd want. A financial adviser can help you to address this complex issue. They can also assist in many other ways. This includes helping to address your estate planning needs, in conjunction with your lawyer.

## **Contact your local Adviser**