inTouch

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Welcome to our quarterly magazine – in this edition:

- Safeguarding your retirement plan
- Retirees and life insurance?
- Tax changes for seniors are now on the table
- Are your finances ready for this year's changes?
- Male bonding: it's good for mental health
- Significant changes to contribution limits to super could prove a challenge

Welcome to the first edition of InTouch 2017, our quarterly publication to keep you up to date with what's happening in the financial services industry, sharing commentary around areas of advice you may wish to discuss with your financial adviser.

This quarter we look at changes that may affect those thinking about retirement, or already in retirement. This may impact you or someone you know such as a friend or parent, and if so I welcome you to share this publication with them.

Safeguarding your retirement plan

From wills to long-term budgeting, there's a lot to think about when making your retirement to-do list.

Check your will

Your will explains how your property and assets will be distributed when you pass away. Without a valid will, you will be declared intestate and an administrator will be appointed to manage your estate, which may cause your family plenty of problems. To save them the stress, ask a solicitor to draw one up for you.

Plan your estate

Making a will is just one part of the plan. Your estate plan should cover all of your documents, contacts, debts, bills and assets, so your family can easily figure out what to do with them. Think of it as your family's stress-free action plan that they can turn to for guidance when you pass away.

Budget for the long haul

Life expectancy is increasing. Australians aged 40 to 65 today expect to outlive their retirement savings by up to 13 years. To avoid that situation, your budget needs to cover the long term. Women should plan on living to at least 87 and men to 84.

Take stock of your finances and determine how much you will need to live the lifestyle you want. Don't forget to include the potential costs of health and aged care.

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Invest in your future

There are many strategies you can put in place to create a dependable income stream for your retirement. From boosting your superannuation to investing in shares, understanding your investment options can make a huge difference to your retirement savings.

When you start investing – and you should start early – make sure you have a mix of investments to spread your risk.

Be wary of scams

Investment scams are on the rise in Australia. A 2016 report from the Australian Competition and Consumer Commission titled *Targeting scams: Report of the ACCC on scams activity 2015* found that individuals over the age of 45 accounted for 70 per cent of total losses from scams. It's suspected that perpetrators are directly targeting older Australians to access their superannuation funds.

The most common scam reported was from overseas callers, so protect yourself by never giving out your financial details over the phone. When you pay for something online, check that it's a reputable company with a secure site – there should be a little padlock in your browser window. Never send your financial information by email. And remember to be suspicious of anything that sounds too good to be true.

Start thinking about insurance

Many Australians rely on their superannuation for insurance cover. While this is convenient during your working life, it could be eroding your retirement savings. It could also have estate planning implications, which is why it is important to seek professional financial advice. Most insurance policies expire at a certain age, leaving you without cover. During these years, it's essential to have a plan to ensure you have appropriate cover.

From age-based insurance policies to products that cover funeral expenses, you should consider what insurance plan is best for you as you enter retirement. By starting early and consulting a financial adviser, you may set yourself up to have the best chance of living your retirement the way you want to.

Regularly reviewing your retirement plan to ensure it can adapt to changes is an excellent way to keep your retirement strategy resilient and talking to a trusted financial adviser may help you achieve that peace of mind.

1. Investment Trends, (October, 2015), Retirement Income Report.

2. Australian Bureau of Statistics, (November, 2014), Life Tables, States, Territories and Australia. Source: https://www.moneysmart.gov.au/media/332959/financial-decisions-at-retirement.pdf

3. Australian Competition and Consumer Commission, (May, 2016), Targeting scams Report of the ACCC on scams activity 2015. Source: https://www.accc.gov.au/system/files/Targeting%20scams%20-%20report%20of%20the%20ACCC%20on%20scam%20activity%202015.pdf

Retirees and life insurance?

You're retired, the house is paid off and the children are self-sufficient – it may be time to review your life insurance?

Policies expire

People often take out life insurance while they are working to protect their dependants if they die prematurely.

> Life insurance policies, including income protection, trauma, and total and permanent disability (TPD) insurance, generally expire when you reach a certain age, even if you are still working.

So, let's consider some of the insurance products you may have and see how long they generally last.

Insurance options

Term life insurance is the most popular policy option. Beneficiaries receive a lump-sum payment if the policy holder dies or suffers a terminal illness and the usual expiry age is 99.

TPD insurance is paid in a lump sum if an accident or illness prevents the policyholder from earning an income. The usual expiry age for this type of insurance is 65.

Trauma insurance covers a major illness or injury, such as a stroke or car accident. It covers specific events and is paid out in a lump sum that can be used for any purpose, such as living or medical expenses.

Trauma cover can be paid even if you can still work and you can buy a policy even if you are not working. The usual expiry age for this type of insurance is 70.

Income protection insurance covers loss of income caused by accident or illness. Typically, these types of policies pay 75 per cent of the insured person's income but there are many variations in their terms. The usual expiry age for this type of insurance is 70.

What about my super?

There are usually additional rules for policies held within a superannuation fund, and once you reach a defined age you will no longer be able to make contributions.

If your insurance is through your super fund, the premiums are deducted from your super account balance. Life insurance coverage through super usually ends at the age of 65.

When deciding whether to take out or continue your life insurance, you may wish to consider such things as any outstanding debts, including any mortgage repayments, as well as the needs of those who you leave behind.

In most instances, though, your insurance needs decrease with age and the range of relevant policies diminishes.

However, some policies do allow you to extend for an extra fee.

Funeral plans

Perhaps you should consider taking out a funeral plan to cover funeral expenses. Insurers offer age-based options, or fixed-premium policies.

The aged-based policies offer premiums that start lower and gradually increase, while the fixed premiums remain static.

What next?

Each person's circumstances are different and if you are unsure of what you need, talk to your financial adviser.

Tax changes for seniors are now on the table

The Grattan Institute says seniors are contributing less to the economy but taking a lot more out, which has to change.

Budget threat

The government is studying a range of recommendations that would change the age-based tax breaks for seniors.

The suggestions come from the Grattan Institute, an independent think tank, which says age-based tax breaks are damaging the federal budget, and winding them back could help save about $1 billion a year.

Two main targets

So, what is the institute suggesting and what will it mean for older Australians if the recommendations are implemented?

The institute is targeting two generous age-based tax breaks – the seniors and pensioners tax offset (SAPTO) and the higher Medicare levy income threshold for senior Australians.

These have been introduced in the past 20 years as sweeteners for an ageing electorate. As a result, seniors now pay less tax than younger people on the same income.

Rise of the 'taxed nots'

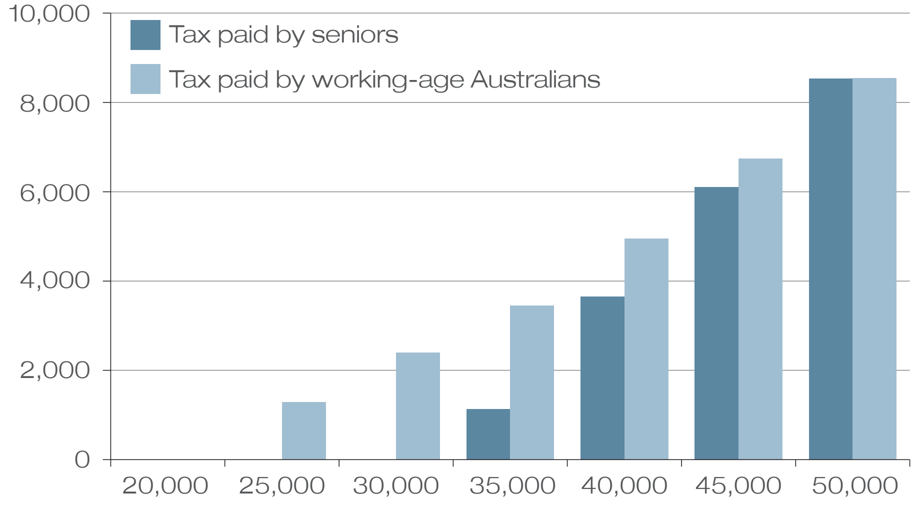
The institute says the trend that has seen fewer people paying income tax – the rise of the 'taxed nots' – reduces budget revenue, which is made worse as the population ages.

It adds that despite rising income and the workforce participation rate, the proportion of over-65s paying tax has halved in the past 20 years.

"The age-based tax breaks for seniors should be wound back," it says. "They might have been affordable when they were introduced, but no longer. They damage the budget, they exacerbate unsustainable transfers between generations, and they are unfair." "The current generation of seniors benefit far more from government spending, particularly on health."

Seniors pay less tax than younger person on the same income

Tax liability by taxable income in 2015–16



Note: Includes personal income tax under rates and threshold, the Low Income Tax Offset and the Medicare levy.

Source: Grattan Institute

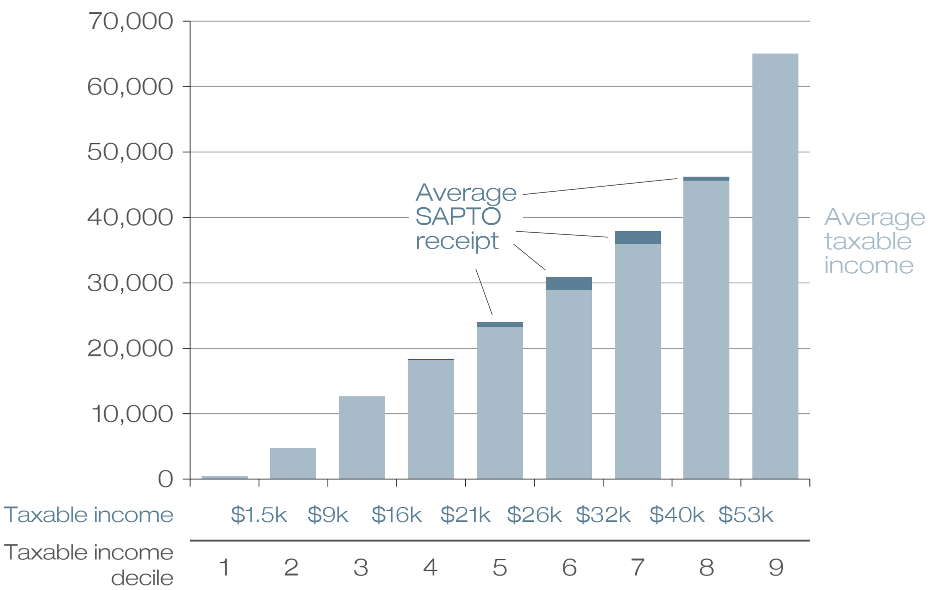
Generational divide

The institute highlights the generational divide through the example of a self-funded retiree couple that has $500,000 in superannuation and $1.4 million in shares as well as a house. They still qualify for a Commonwealth Seniors Health Card that entitles them to cheaper pharmaceuticals and other concessions.

Their assets earn taxable income of $70,000 and they draw $24,500 from their super fund each year. They pay $4,049 in income tax combined, including tax of $3,797 and a Medicare levy of $252. SAPTO reduces their tax by $1,698.

Only middle-income seniors benefit from SAPTO

Tax liability of seniors who lodge a tax return (in 2014 dollars)



Note: Excludes the tenth decile due to scale. Includes only people who lodge a tax return, which excludes many full pensioners who are not required to lodge returns but may choose to do so. Many people with low taxable incomes will have significant superannuation balances that exclude them from receiving a pension, but earnings from superannuation are not included in taxable income.

Source: Grattan Institute of ATO (2016e)

By contrast, a couple in their 40s working full time in minimum-wage jobs and earning a combined income of $70,000, pay tax of $5,494 and a Medicare levy of $1,400. In other words, they pay $2,845 more tax than the seniors on the same income.

Three changes suggested

The institute makes three recommendations:

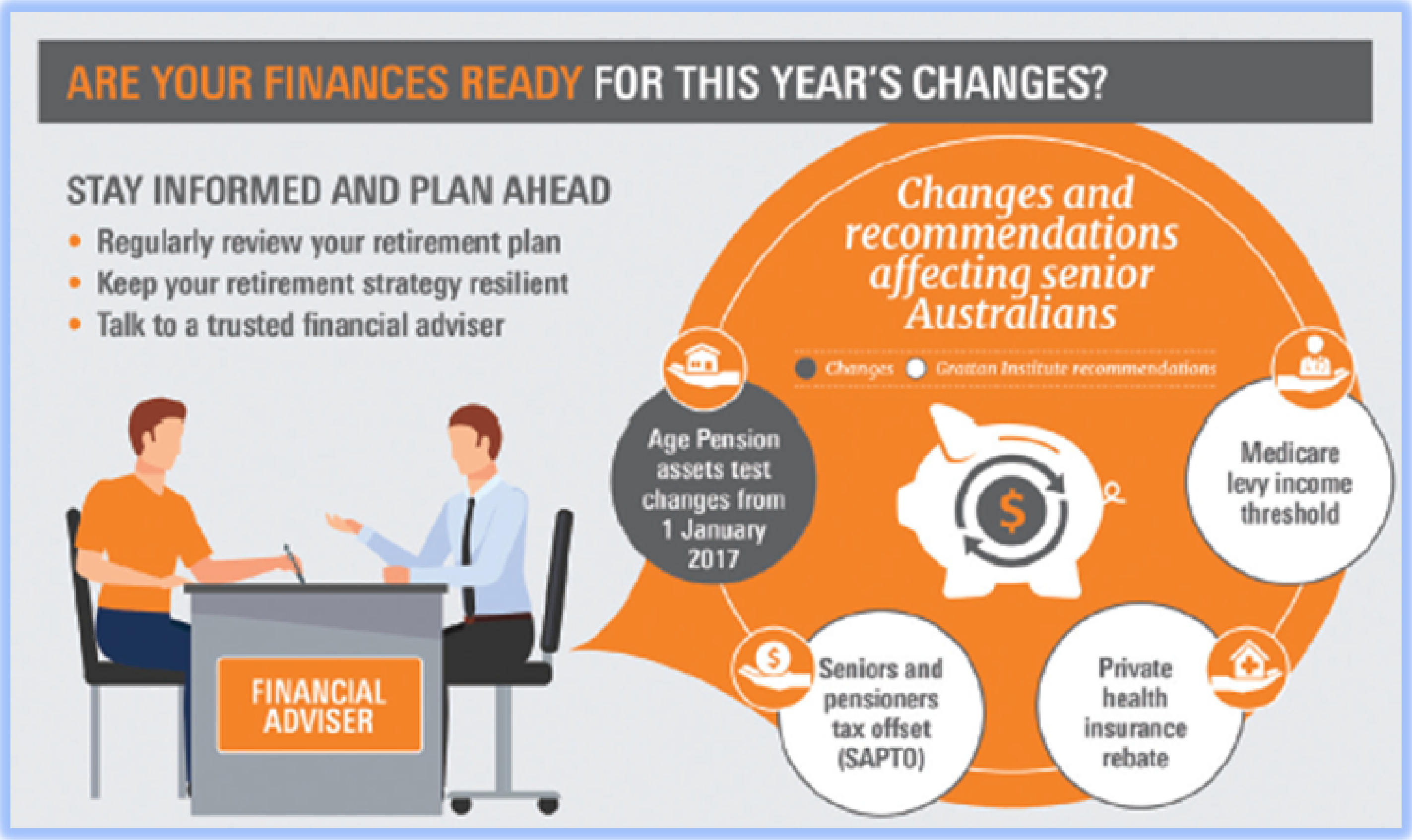
1. Make SAPTO available only to pensioners so that those who do not qualify for a full Age Pension pay some income tax.
2. Seniors should also start paying the Medicare levy at the point where they are liable to pay some income tax.
3. The private health insurance rebate should be provided at the same rate irrespective of age as seniors are already adequately protected from higher private insurance costs by 'community rating' arrangements.

The institute says the changes would have little effect on the 40 per cent of seniors who receive a full Age Pension. Those affected will be wealthy enough to receive no pension at all, or only a part Age Pension. They will not pay any more tax than younger households on similar incomes.

What next?

Under the recommendations, some part-rate pensioners and self-funded retirees would simply return to paying the same rates of personal income tax as working-age Australians with similar incomes.

But to understand fully how the Grattan Institute's recommendations would affect you, we suggest you talk to your financial adviser.



With many changes coming into effect this year – and more reforms being suggested – now is a great time to get your finances organised so you're prepared.

Changes to the Age Pension

Changes to the Age Pension assets test kicked in at the beginning of January 2017.

The good news is that the threshold has been increased, so you can now own more assets before your pension is affected. But the penalty for going over the threshold has also increased. For every $1,000 of assets you have above the new threshold, your pension will be reduced by $3 – double what it used to be.

The asset test threshold varies depending on your marital status and whether you own a home, so it's best to talk to your adviser about the changes.

The age of entitlement

A Grattan Institute report titled 'Age of entitlement: age-based tax breaks' published in November last year suggested that making several changes to the entitlements seniors receive could save the federal government $1 billion a year.

The institute recommended winding back:

- the seniors and pensioners tax offset (SAPTO)
- the Medicare levy income threshold for seniors
- the private health insurance rebate for seniors, so they receive the same rebate as younger Australians.

The recommendations focus on retirees who have incomes at taxable levels. These may be retirees who are self-funded or on a part Age Pension. The changes would have little effect on seniors who receive a full Age Pension.

Stay informed and plan ahead

Staying up to date about any changes to superannuation and seniors' entitlements – locked in or potential – may help put you one step ahead. Regularly reviewing your retirement plan to ensure it can adapt to changes is an excellent way to keep your retirement strategy resilient.

Talking to a trusted financial adviser may help you achieve that peace of mind.

While these are only recommendations at this stage, you may benefit most from preparing early.

Male bonding: it's good for mental health

Male bonding is good for men's mental health but a lack of social connections can undermine it, the Australian Bureau of Statistics (ABS) says.

Boots and all

Playing sport, or even just watching it, has mental health benefits for men, according to the Australian Bureau of Statistics (ABS).

"Sport is a great way for men to get together, and regardless of whether they play or watch, men are able to gain mental health benefits through spending time with friends," says Dr Paul Jelfs, ABS General Manager of Population and Social Statistics.

> However, a lack of social connections can lead to a higher risk of developing a mental health condition.

The findings are part of the fourth General Social Survey (GSS), which the ABS conducted in 2014 and released in late November.

It shows that about three-quarters of all men participated in some sort of physical recreation in 2014 and just over half attended a sporting event as a spectator.

Volunteering helps

Dr Jelfs says volunteering helps give men a sense of purpose and enjoyment. In 2014, about 2.6 million men participated in voluntary work, with 78 per cent saying they did so for personal satisfaction or to help others.

"In general, younger men are more likely to help with sporting teams while older men are more likely to volunteer for welfare, community or religious organisations," he said.

Dr Jeffs says that Australian men generally have a range of opportunities for social interactions.

He says 75 per cent of men have weekly face-to-face contact with family or friends living outside their households, while 89 per cent also have weekly contact through other means such as phone calls, text messaging and email.

Other popular activities for men are attending movies (65 per cent), visiting botanic gardens, zoos or aquariums (45 per cent), and attending concerts, theatres or other performing arts events (44 per cent).

Satisfaction rises

Men are also generally satisfied with their lives. In 2014, GSS data showed that on average, Australian men aged 15 years and over rated their overall satisfaction with life as 7.6, which was higher than in 2012 and above the Organisation for Economic Co-operation and Development (OECD) average.

In 2012, when asked to rate their life satisfaction, on a scale from 0 to 10, people in countries across the OECD gave it a 6.6 average (where 0 means 'not at all satisfied' and 10 means 'completely satisfied').

Overall life satisfaction measures how people evaluate their life as a whole rather than how they feel at present or how they feel about particular aspects of their life.

The ABS says the main purpose of the GSS is "to provide an understanding of the multi-dimensional nature of relative advantage and disadvantage across the population, and to facilitate reporting on and monitoring of people's opportunities to participate fully in society".

Crisis help lines

Lifeline: **13 11 14**

Suicide Call Back Service: **1300 659 467**

Kids Helpline (for those aged 5 to 25): **1800 55 1800**

Significant changes to contribution limits to super could prove a challenge

The changes to super and tax laws proposed in this year's federal budget, then revised and adjusted by the government in September, have been passed through Parliament and are mostly due to take effect from 1 July 2017.

That means that you have until July to consider if there is any action you should take to make the most of current super rules or to comply with the upcoming changes.

We take a look at some of the key changes in the following table.

If you are concerned about how you may be impacted, now is the time to talk to your financial adviser so you have time to review your superannuation and retirement plan, before the changes take effect.

Significant super reforms

Now	New*
No limit on funds moved into tax-free pension phase.	**$1.6 million transfer balance cap** on super transferred to the tax-free retirement income phase.
Clients can contribute $180,000 of their after-tax earnings to super each year (or $540,000 for those eligible to bring forward two years of contributions).	Reduction in annual **after-tax contributions cap to $100,000** (or $300,000 if bringing two years of contributions forward, if eligible). Clients with balances of $1.6 million or more, just before the start of the financial year, cannot make after-tax contributions.
Annual concessional (before-tax) contributions limit of $30,000 (or $35,000 if aged 50 or over by June 30, 2017).	Reduction in the annual concessional **(before-tax) contributions cap to $25,000**. This applies regardless of age.
Unused concessional contributions caps are lost.	**Catch-up concessional contributions may be available** for those with balances less than $500,000 just before the start of the financial year.
If income from employment is less than 10% of total income, client can claim a tax deduction for personal super contributions.	**Clients under age 65; or age 65-74 who satisfy the work test, can claim a tax deduction** for personal super contributions.
Additional 15% tax on certain concessional contributions if your adjusted income exceeds $300,000.	**Additional 15% tax on certain concessional contributions**, if your adjusted income exceeds $250,000.
Earnings on transition-to-retirement super pensions are tax free.	**No earnings tax exemption** on transition-to-retirement super pensions. Earnings will be taxed at up to 15%.
Anti-detriment payments may apply on certain lump sum death benefits (generally a notional refund of contributions tax to be paid on death).	**No anti-detriment payments** on lump sum super death benefits (no refund of contributions tax paid on death).
Offset for contributions to spouse's super (if spouse earns under $13,800).	Offset for contributions to spouse's super (**if spouse earns under $40,000**).
The 'low-income super contribution' refunds tax (up to $500) on concessional contributions for those earning $37,000 or less.	Introduction of the **low-income super tax offset** (effectively a continuation of the low income super contribution).

* These measures start 1 July 2017, except for the catch-up concessional contribution measure which starts 1 July 2018.

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Please feel free to contact us if you wish to discuss this newsletter, or any other financial planning matters. We are always happy to have a chat. Referrals welcome.

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