

inTouch

magazine | Q2 2021



Welcome to our quarterly magazine – in this edition:

- Indexation of contribution caps
- TPD insurance: ownership structures
- How do you know when the advice is right?
- Navigating your way through a redundancy
- Get insurance while you're still bulletproof

Welcome to the Q2 edition of inTouch for 2021. This edition looks at some options around personal insurance protection in our article on TPD insurance and our illustration about getting insurance whilst you're still young and bulletproof!

Our lead article considers the tax treatment of income and capital gains from assets held inside super, both in the accumulation and retirement phases.

Our adviser network recently released a number of client-facing communication pieces following the Federal Budget announcement on 11 May 2021 - if you missed these communications, contact your RI Financial Adviser who can provide you with a copy and discuss whether any of the proposals may impact your financial plan.

I hope you enjoy this edition.

Indexation of contribution caps

When it comes to building and maintaining wealth, super is widely considered to be one of the most tax-effective investment structures available. This is particularly evident when considering the tax treatment of income and capital gains from assets held inside super, both in the accumulation and retirement phases.

Therefore, in terms of building an appropriate super nest egg, it's important to understand the factors that can have an impact on your super balance come retirement time. One of these factors is super contributions.

Super contributions

In terms of super contributions, it's important to understand that there are two main types:

- **Concessional contributions.** A concessional contribution generally refers to a contribution that can be claimed as a tax deduction by the contributor, e.g. employer contributions (including salary sacrifice), and personal deductible contributions.

- **Non-concessional contributions.** A non-concessional contribution generally refers to an after-tax contribution that isn't (or can't be) claimed as a tax deduction by the contributor, e.g. personal contributions not claimed as a tax deduction and spouse contributions (for the recipient).

With the above in mind, it's also important to note that restrictions limit the amount that can be contributed to super, referred to as the contribution cap limits.

As it stands, for the 2020-21 financial year:

- the annual concessional contributions cap is currently \$25,000. *Please note: The carry-forward provision, allows you to carry forward unused concessional contributions cap amounts on a rolling basis for a period of up to 5 years if you meet certain requirements.*
- the annual non-concessional contributions cap is \$100,000 per annum, and the maximum that can be contributed in one financial year by bringing forward the caps of the next two financial years (the bring-forward rule) is currently \$300,000. For further information on this, please see the below table.

Non-concessional contributions cap and the bring-forward rule	
Total super balance at 30 June 2020	Non-concessional contributions cap
\$1.6 million +	\$0
\$1.5 million < \$1.6 million	\$100,000
\$1.4 million < \$1.5 million	\$200,000
< \$1.4 million	\$300,000

Indexation of the contributions cap limits

When considering the contributions cap limits mentioned above, it's important to note that the annual concessional contributions cap is indexed annually with Average Weekly Ordinary Time Earnings (AWOTE) and rounded down to the nearest \$2,500. Further, since the non-concessional contributions cap is 4 x the concessional contributions cap, indexation of the concessional contributions cap by \$2,500 would increase the non-concessional contributions cap by \$10,000.

Importantly, with the recent announcement of the AWOTE figure for the December 2020 quarter, the annual concessional contributions cap is set to be indexed on 1 July 2021, which in turn will increase the annual non-concessional contributions cap. As such, for the 2021-22 financial year:

- the annual concessional contributions cap is set to be \$27,500.
- the annual non-concessional contributions cap is set to be \$110,000, and the maximum contribution utilising the bring-forward rule is set to be \$330,000.

Indexation of the general transfer balance cap

It's important to consider the relationship between the contribution caps and the general transfer balance cap (TBC), which will both be increased by indexation on 1 July 2021.

From 1 July 2021, the general transfer balance cap is set to increase from \$1.6 million to \$1.7 million. The general transfer balance cap is equal to the total superannuation balance threshold at which the non-concessional contributions cap is \$0. Your total super balance measured at 30 June of the last financial year.

For example, when considering the non-concessional contributions cap and the bring-forward rule, if you have a total super balance of \$1.7 million or more on 30 June 2021, you will have a non-concessional cap of nil. For further information on this, please see the below table.

Non-concessional contributions cap and the bring-forward rule	
Total super balance at 30 June 2020	Non-concessional contributions cap
\$1.7 million +	\$0
\$1.59 million < \$1.7 million	\$110,000
\$1.48 million < \$1.59 million	\$220,000
< \$1.48 million	\$330,000

Please note:

- With the increase in the annual concessional contributions cap from 1 July 2021, you may wish to review the existing concessional contributions to your super account, e.g. employer contributions (including salary sacrifice), and personal deductible contributions.
- If you have triggered the bring-forward rule prior to 1 July 2021, you won't benefit from the 1 July 2021 indexation of the non-concessional contributions cap until your bring-forward period has elapsed. However, depending on whether you have commenced a retirement pension or not, you may benefit from the indexation of the general transfer balance cap from 1 July 2021.
- The *Treasury Laws Amendment (More Flexible Superannuation) Bill 2020* is still sitting before Parliament. If enacted in its current form, this Bill would allow an individual under 67 years of age anytime during the financial year, rather than under 65 years of age, to access the bring-forward non-concessional contributions cap in a particular financial year. Also of note, in the Bill's current form, this change would apply to non-concessional contributions made on or after 1 July 2020 (backdated).
- The work test must be met if you are 67 years or older when the contribution is made unless you qualify for the work test exemption.

Information correct as at March 2021.



TPD insurance: Ownership structures

Your income throughout your working life is a key financial resource, it allows you to fund your lifestyle expenses and work towards achieving your financial goals and objectives, now and in the future.

Therefore, it's important to understand that in your working life, you have a 1 in 3 chance of being disabled for more than 3 months¹. And unfortunately, coupled with this, if you were to be off work for:

1. **20 days**, the chance of ever getting back to work is **70%**.
2. **45 days**, the chance of ever getting back to work is **50%**.
3. **70 days**, the chance of ever getting back to work is **35%**².

In the event that you were to become totally and permanently disabled due to a sickness or injury and unable to work again, a total and permanent disability (TPD) insurance policy could play a vital role.

For example, upon a successful claim, a TPD insurance policy would provide you with a lump sum benefit payment, which depending on your personal circumstances, could assist with one or more of the following:

- debt reduction;
- income generation;
- lifestyle modifications; and,
- immediate and ongoing medical expenses.

Notably, when establishing a TPD insurance policy, it's important to choose the most appropriate ownership structure for you. In terms of ownership structure, this can include the choice between having your TPD insurance policy held inside or outside of super (super or non-super).

There can be advantages and disadvantages to each ownership structure. Below we provide an overview of this from a claim definition and tax treatment (insurance premiums and benefit payment) perspective.

We cover these ownership structures in terms of the following:

- **Super** - your super fund trustee owns the TPD insurance policy on the member's life (your life).
- **Non-super** - you own the TPD insurance policy on your own life for personal protection purposes, and you pay the insurance premiums.

Claim definitions

In terms of TPD insurance policy claim definitions, there are many different types available, with some restrictions on eligibility based on age, occupation, medical history, and ownership structure.

With this said, there are two main types of TPD insurance policy claim definitions that insurers offer:

- **Any occupation** – in general, you will need to be assessed by the insurer as being incapacitated to such an extent, solely because of a sickness or injury, as to render you unlikely ever to be able to work in any occupation for which you are reasonably suited by training, education or experience.
- **Own occupation** – in general, you will need to be assessed by the insurer as being incapacitated to such an extent, solely because of a sickness or injury, as to render you unlikely ever to be able to work in your own occupation.

Other types of TPD insurance policy claim definitions include homemaker and general/all duties.

With the above in mind, when looking at a super ownership structure, from 1 July 2014, a TPD insurance policy with an 'own occupation' claim definition is no longer able to be held inside super. However, grandfathering provisions do apply for relevant TPD insurance policies that were established prior to this date.

In contrast to super, there are no TPD insurance policy claim definition restrictions placed upon a non-super ownership structure. However, it's important to note that some insurers do offer super-linked TPD insurance.

In a nutshell, super-linked TPD insurance can allow you to obtain an 'own occupation' claim definition as well as many of the other benefits associated with holding personal insurances inside super (see next page).

Tax treatment

In terms of TPD insurance policy tax treatment, there are several things to consider, for example, the tax treatment of not only the insurance premiums payable but also the benefit payment itself.

With regard to a TPD insurance policy within a super ownership structure:

- **Insurance premiums** - the super fund trustee can generally claim the insurance premiums as a tax deduction, reducing the tax paid by the super fund trustee. The tax saving is often rebated to your super account, effectively reducing the premium cost by 15%. Also, where you are eligible to and do make super contributions to fund the insurance premiums payable, you may be, for example:
 - » entitled to claim a tax deduction (on personal deductible super contributions).
 - » eligible for the Government co-contribution (on non-concessional contributions).

It's important to be aware that the super contributions that you make count towards your relevant contributions caps. Also, the insurance premiums can erode your super retirement savings if you don't make extra super contributions to negate the cost.

- **Benefit payment** - in addition to meeting the TPD insurance policy claim definition, you must meet the permanent incapacity condition of release before the super fund trustee can pay the benefit payment to you, which means the trustee must be satisfied that you have a permanent medical condition that is likely to stop you from ever working again in any job you were qualified to do by training, education or experience. The insurer pays the benefit payment to the super fund trustee first, then the super fund trustee pays the benefit payment to you (your super account).

Also, the benefit payment can be assessable for tax purposes in certain situations, for example, where you choose to have the benefit payment paid from your super account as:

- » a lump sum. Tax may be payable on the withdrawal if you are under age 60.
- » an income stream. Tax may be payable on the pension payments if you are under age 60.

It's important to be aware that with super ownership structure, unless you actively opt-in to maintain your TPD insurance policy, your cover may be cancelled if, for example, your super account becomes inactive for 16 months or more, or your account balance falls below \$6,000.

In comparison to super, with regard to a TPD insurance policy with a non-super ownership structure:

- **Insurance premiums** - you can't claim insurance premiums as a tax deduction, therefore the insurance premiums payable must be funded with your after-tax dollars.
- **Benefit payment** - you need only meet the TPD insurance policy claim definition for the insurer to pay the benefit payment to you and there is no need to meet the permanent incapacity condition of release. Also, the benefit payment is not generally assessable for tax purposes.

Talk to your financial adviser

If you would like to review your personal insurance cover and consider if a TPD insurance policy would give you peace of mind that you are protected should you be unable to work due to total and permanent disability, contact your financial adviser.

1. The Institute of Actuaries of Australia (2000). Interim Report of the Disability Committee.
2. Actuaries Institute, Actuaries Summit. Super, Life and General meet at the Crossroads.

How do you know when the advice is right?

Seeking financial advice can turn your life around and put you on a path to a happier and more secure financial future. But where do you start? Who do you trust? How do you know you are going to get value for money?

There are many questions that may pop into your head when you think about whether or not to seek professional advice. One major barrier to seeking financial advice may be that you don't know if the advice is going to be appropriate for you. You may also wonder if the advice is something you need a professional for, or if you can figure out on your own.

Appropriate financial advice can be life changing because you are tapping into the mind, and technical expertise, of a qualified and trained professional whose job it is to know the ins and outs of financial services, and stay on top of regulatory change.



Financial advisers are required to complete 40 hours of Continuing Professional Development each year to remain qualified and compliant – ongoing learning and development is a huge part of a Financial Advisers' value to their clients. Many Financial Advisers do not work independently, but as part of a team with experts in research, investments, insurance and the technical landscape. A broader and qualified team members may contribute to a more well-rounded and holistically considered financial plan for each individual client.

Do your own research

There are reliable websites you can use to research the qualifications and specialist areas of a Financial Adviser. These include:

- the Government's MoneySmart website has an article on choosing a Financial Adviser: moneysmart.gov.au/financial-advice/choosing-a-financial-adviser
- you can check the ASIC register for registered Financial Advisers: moneysmart.gov.au/financial-advice/financial-advisers-register

- you could call a few financial advice businesses in your local area with a set of standard questions such as:

- » who are you employed by?
- » what are your qualifications?
- » how many years of experience do you have?
- » what are your specialist areas of advice?
- » do you work as part of a broader team of financial specialists?
- » do you offer a fee and obligation free introduction meeting?
- » how do you charge for your advice fees?

Look at the published research

In 2020, CoreData conducted a survey¹ for IOOF with a sample size of 11,615 advised clients and 1,000 unadvised individuals across Australia. The research showed overwhelmingly that financial advice made a positive impact on the advised clients.

The research showed that:

- **84%** of advised clients agree the **value of advice outweighs the costs**
- **91%** agreed receiving advice helped them to **achieve their financial goals**
- **82%** believe advice **helps inspire them** to work towards and reach their goals.

Don't let uncertainty hold you back

If you are unsure about the true value of advice but you want to explore whether it might help you reach – or exceed – your financial goals, you should have a conversation with a Financial Adviser about getting a plan in place. Booking an initial meeting is usually at no cost to you, and it provides an opportunity to meet face-to-face, or via a video chat, to discuss the process.

Talk to us

We have capacity to take on new clients and welcome the opportunity to meet with you.

1. True Value of Advice Research by CoreData for IOOF 2020





Navigating your way through a redundancy

The Australian Bureau of Statistics announced a record 932,000 jobs were lost between the March and June 2020 quarters in the wake of COVID-19¹.

While the Government extended temporary economic assistance for most businesses until March 2021, it has gradually been phased back which may result in many businesses downsizing, winding up or becoming bankrupt. This means it's possible that more jobs may be lost in the coming months.

If you are facing a possible redundancy at work due to the aftermath of COVID-19, or a company restructure, this is considered a significant life event that may impact your career, family, mental health and financial wellbeing. For those who are ready to retire, termination payments are likely to be a welcome windfall, but for those who don't have retirement on the near horizon, you may find redundancy stressful, as it tends to happen during an economic downturn when it may be harder to find a new job.

The immediate issue to consider is whether you have enough money to tide things over until the next job comes along. If you are working with a Financial Adviser, then they will have a good idea of what your current financial position looks like, and how long you can manage without a job. They can also advise on different options to consider when it comes to a redundancy payout.

Your Financial Adviser can discuss:

- how will redundancy payments be taxed?
- what other employee entitlements will be lost?
- will lump sum payments impact on entitlements to social security and family assistance?
- how will payments be used?

This is a great opportunity to make a real difference to your situation during a challenging time, and, if you are the employer, you may be able to support your employees to achieve a better outcome.

Genuine redundancy payment (GRP) Payments on termination due to redundancy attract more generous tax concessions than if the employee resigns.

If you are offered and accept a redundancy, it is worth knowing about the tax concessions and the conditions that must be met to be eligible.

A GRP must satisfy the following conditions:

- the employee is dismissed because the employee's position/role no longer exists
- there is no arrangement between the employer (or another entity such as a company associated with the employer) and employee to rehire the employee after dismissal
- where the relationship between the employer and employee is non-arm's length, the payment cannot be greater than the amount that would be reasonably expected if the relationship was at arm's length
- the dismissal occurs at the earlier of the following:
 - » before the employee attains Age Pension age, or
 - » before the employee attains the age, or completes a period of employment, when employment would have terminated.

If these conditions are not met, the employee is ineligible for the tax concessions that apply to GRPs. For example, where redundancy occurs on or after Age Pension age, the employee is not eligible for a tax-free GRP.

Payments on termination

Payments that may be received by an employee who is made redundant include:

- salary and wages, overtime, bonuses and allowances
- unused annual leave and long service leave
- severance payments
- a gratuity or 'golden handshake'
- genuine redundancy or early retirement scheme payments
- non-genuine redundancy payments (eg redundancy occurs after employee reaches Age Pension age)
- payments in lieu of notice
- unused sick leave
- unused rostered days off.

Taxation of payments

Payments on termination are categorised to determine how they are taxed. If you are offered a redundancy, you can plan ahead by asking your employer for an estimate of the payments you will receive, including withholding tax amounts. Your employer can provide you with an income statement at termination or you can obtain this from the Australian Taxation Office (ATO).

Payments eligible for concessional tax treatment attract tax offsets so that the tax paid does not exceed the concessional tax rate. Tax withheld by your employer reduces the final tax payable and if too much tax was withheld the excess is refunded to you.

Your Financial Adviser can help you identify and work out:

- payments for earned income
- tax on unused annual or long service leave
- non-excluded employment termination payment (ETP), the tax-free genuine redundancy payment (GRP) and the excluded ETP.

Other considerations

As well as working out any payments, your Financial Adviser can discuss other financial and personal considerations, including:

- how ongoing expenses can be met and for how long
- whether you intend to retire and if not, how long it may take to find another job
- other financial resources available to you
- eligibility for social security payments and/or Family Tax Benefits

- whether your employer has the flexibility to 'time' the redundancy and termination payments to assist with a better tax outcome
- whether deferring taxable income (for example deferring the sale of investments with capital gains implications) will have a favourable outcome
- your capacity to make personal deductible super contributions
- what you would like to do if you do decide to retire, and what your retirement lifestyle will look like given your financial situation
- if you decide to return to the workforce, whether your next job can pay a similar salary or if you take a pay cut in the current economic environment.

Conclusion

A redundancy may be beneficial if you're ready to retire but stressful if you need to find a new job in a challenging economic environment. Some employers may be able to offer flexible payment arrangements on termination to facilitate a better tax outcome.

A Financial Adviser will discuss both the impact of a redundancy on your overall financial situation and how to achieve a favourable payment outcome.

¹ Source: Labour Account Australia

NAVIGATING YOUR WAY THROUGH A REDUNDANCY



932,000

Jobs were lost between the March and June 2020 quarters in the wake of COVID-19.¹

If you are facing a possible redundancy at work due to the aftermath of COVID-19...

A FINANCIAL ADVISER CAN DISCUSS:

- The **impact** of redundancy on your overall financial situation.
- How to achieve a favourable **payment outcome**.









Redundancy payment taxes

Employee entitlements

Social security

Future expenses

1. Australian Bureau of Statistics

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