

# connect

Spring 2017

## Hopes for European unity boosted after French presidential election

Emmanuel Macron and Marine Le Pen went head-to-head in the second round of the French presidential election that took place in May. Macron's win has eased concern over the impact of right-wing parties in Europe and the potential for a European Union collapse. Despite this election result it wasn't enough to convincingly move European markets into positive territory for the June quarter. Macron attained 66.1 per cent of votes in the second round, a decisive victory, but as it was predicted by pollsters the market reaction was relatively muted.

### Rating agencies downgrade Australian banks

Moody's, the credit rating agency, lowered their rating on a number of Australian banks including the big four in June, citing increased economic risks due to the state of the property market and high-levels of household debt. The big four banks had their rating cut from Aa2 to Aa3 following a similar move by S&P Global Ratings in May. The housing market has received a lot of attention lately due to the risks associated with rising household debt and concerns over affordability, particularly in Sydney and Melbourne. While economic risks have increased, macro prudential actions should help unwind the imbalances and prevent a further build-up of risks.

election backfired and the Conservative Party lost its majority in the House of Commons. May now finds herself forced to deal with the Northern Irish Democratic Unionist Party so she can form a minority government. Despite the shock result, financial markets reacted relatively calmly.

### China re-enforces free trade

The price of iron ore surged following Keqiang's commitment to support free trade during the World Economic Forum but it's difficult to see a sustained rebound in the metal given China's overcapacity in steel. Despite the short term surge, the price of iron ore fell over 35 per cent in the June quarter due to the persistent glut and high inventory levels at Chinese ports.

Source: IOOF

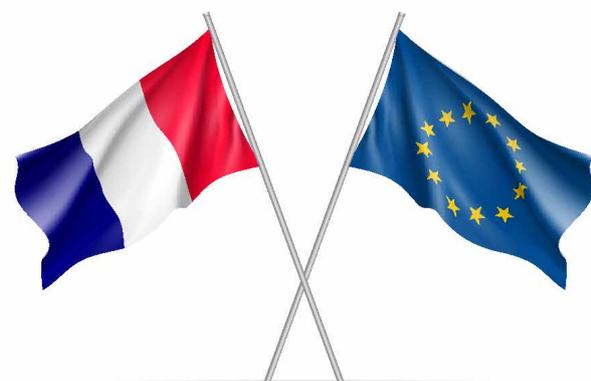


How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case.

Robert G. Allen

### UK general election backfires on Theresa May

The UK Prime Minister, Theresa May, called an early election on the 8 June in an attempt to gain a larger majority for her Conservative party in parliament. Prior to the election, the Conservatives held a majority of 17 seats in the House of Commons and it was in May's best interest to attempt to increase the majority and strengthen her position in the Brexit negotiations. However, May wasn't so fortunate. Her snap



Speak with your financial adviser to discuss your investment opportunities.

# The new super rules contain some good news

The 2017 superannuation changes provide new opportunities for you to finance the cost of your life insurance needs.

The 10 percent rule is history! This rule prevented employees making additional tax deductible contributions into superannuation, even though their additional contributions were within the concessional (tax deductible) contributions cap.

## Outline of new measures

From 1 July 2017, you may make additional deductible personal contributions into superannuation, provided that you do not exceed your concessional contribution caps. This means that any unused concessional contribution cap amounts can fund personal insurance arrangements in a tax effective way.

For example, consider the situation where your employer makes a \$15,000 contribution into your super during the Income Year Ended 30 June 2018. You now have the capacity to make an additional deductible personal contribution of \$10,000 in the 2018 income year, totalling up to \$25,000 concessional contribution cap. If your insurance premium is \$5,000 per annum, you can make a tax deductible personal contribution of \$5,000 to a superannuation fund, and have the superannuation fund pay the requisite premium.

Source: TAL

## How does this benefit you?

### (i) Substantial out of pocket cost reduction

Funding insurance in superannuation in this way can substantially reduce the cost of insurance. Unfortunately, the cost of insurance outside superannuation is generally not deductible for tax purposes. If we structure an insurance arrangement in super funded by deductible personal contributions, a potentially different out of pocket cost outcome for you is possible. For example, if you earn \$90,000 per annum in 2017/2018, you will have a marginal tax rate of 39 percent. In order to fund an annual insurance premium of \$5,000 (out of super), you must earn \$8,197 before tax. Using the insurance in superannuation route, you can reduce the out of pocket cost of this insurance to \$5,000 per annum. The out of pocket cost reduction is based on your marginal tax rates. The higher the marginal tax rate, the greater the reduction.

### (ii) No erosion of retirement savings

A major criticism is that personal insurance in superannuation erodes retirement savings. This is certainly true when we are using superannuation balances to fund life insurance costs. However, in this instance there is no erosion of retirement savings. The \$15,000 employer contribution made on your behalf is not eroded by this arrangement.

### (iii) No contributions tax

Everyone gets confused over the imposition of the 15 per cent contributions tax. The good news is that the above arrangement does not carry a 15 per cent impost.

Your personal concessional contribution is included in the assessable income of the recipient superannuation fund, but there is an offsetting tax deduction within the superannuation fund for the premium paid on life cover. This means that the contributions tax cost is reduced to zero via this tax deduction. Your insurance arrangements in super therefore do not carry any costs in addition to the premium paid.

## One word of warning

### Beware the notice formalities

Personal contributions into superannuation are presumed to be non-deductible ("non-concessional") contributions, unless you provide the superannuation fund trustee with a notice of intention to claim a tax deduction. If a notice is not provided, and other associated formalities are not completed

within the prescribed time periods, no deduction may be claimed for the contribution in question. This means that you need to observe these provisions meticulously and diligently to ensure that you do not lose this valued tax deduction.

## Way forward

The personal insurance in superannuation landscape has changed dramatically with effect from 1 July 2017.

Speak to your financial adviser to ensure your life insurance arrangements give you the best possible outcomes.

# When can I retire?

There seems to be some confusion among Australians as to the current retirement age, with some commentary linking this to the age pension age, others to the age at which you can access your superannuation.

In Australia there is no official retirement age, so you can choose to retire at any time that suits you.

There is a difference though, between choosing to retire, the age you can access your superannuation benefits and the age at which you are eligible for the Centrelink Age pension.

There are three key ages when considering retirement planning;

- Preservation age
- Age 65
- Centrelink age pension eligibility age

## Age pension eligibility

You can apply for the Centrelink age pension once you attain a certain age, and this is gradually increasing from age 65 to age 67. Eligibility age is based on your birthdate<sup>1</sup>:

Birthdate	Age pension eligibility
Before 1 July 1952	65
1 July 1952 to 31 December 1953	65½
1 January 1954 to 30 June 1955	66
1 July 1955 to 31 December 1956	66½
From 1 January 1957	67

## Age 65

Your superannuation is preserved within the superannuation system until a 'condition of release' has been met, which allows you to access some or all of your benefits. One of these conditions is simply attaining age 65 (regardless of employment status), at which point all of your superannuation will become accessible.

This age is not linked to your age pension eligibility age, meaning even if you cannot access the Centrelink age pension until age 67, you can still start drawing on your superannuation savings from age 65.

## Preservation age

Preservation age for superannuation varies depending on your birthdate<sup>2</sup>:

Birthdate	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

Once you reach your preservation age as shown in the table above, you can access up to 10 per cent of your superannuation balance each year, in the form of a superannuation pension payment.

Permanently retiring between your preservation age and 60 will also satisfy a condition of release, allowing you to access all of your superannuation benefits.

Once you reach age 60 the requirement is slightly less stringent, and you only need to cease work – not permanently retire – to satisfy a condition of release. Again, this will allow access to your full superannuation balance.

In summary, despite the government increasing the eligibility age for the Centrelink age pension, you can still access your superannuation savings at age 65 (or earlier if you meet another condition of release) and you can actually choose to retire at any age that works for you. Now there's some motivation to get independently wealthy!

Source: AIA

1 <https://www.humanservices.gov.au/customer/services/centrelink/age-pension>

2 [http://www.austlii.edu.au/au/legis/cth/consol\\_reg/sir1994582/s6.01.html](http://www.austlii.edu.au/au/legis/cth/consol_reg/sir1994582/s6.01.html)

Speak to your financial adviser to discuss your retirement plans.

# The Spring holiday guide to investing

Here's a story about two work colleagues who took separate holidays. One had a ball. The other came home miserable. Their experiences provide valuable lessons about investment.

With spring in bloom, Frances booked a beach house up the coast for a week. Brian opted for six nights of bushwalking in the Grampians. But while Frances returned to work rested and recharged, Brian came back a jibbering wreck.

Being a last-minute kind of guy, Brian had booked a rugged 'alpine adventure' on a whim after a tip from a stranger at the pub. The problem is the tight timeframe left him little room to negotiate over price. And the package he chose was not the one the guy had recommended.

While the brochures promised sunlit vistas and balmy spring nights under the stars, it was cold, wet and miserable every day. Brian's hastily hired gear fell apart, the tent leaked and he soon discovered that he hated bushwalking.



It rained on Frances' holiday, too. But she hadn't invested everything in the beach. Anticipating all climates, she'd packed books to catch up on, alongside a painting kit, crossword puzzles and a guide to local galleries and cafes.

Having planned her holiday well ahead, Frances also knew what she wanted from the break. It wasn't so much the beach; it was the solitude, the quiet and the opportunity to refocus. And she had sought advice from someone who knew her.

In contrast, Brian had no idea what his holiday was about or whether it was right for him. In truth, he was buying somebody else's experience.

The point of this story is to show you that investing well is like planning a holiday. There will always be things outside your control, like bad markets or lousy weather. But you can mitigate that by preparing well and diversifying.

Not doing it on impulse gives you more flexibility around cost and design. Thinking clearly about what you are trying to achieve lessens the chance that you take silly risks. Getting advice from someone who knows you and your tolerances also helps.

Most of all, the journey and the destination shouldn't be at each other's expense. You need a plan, but it also has to be one you can live with. Once you understand all that, your investment experience (and your holidays) will be much less stressful.

Source: Dimensional

**Speak to your financial adviser to discuss your investment plans.**



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