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QUARTERLY INSIGHT

InterPrac Financial Planning Newsletter Edition 2 2021

Winter update

With another summer behind us, it is time to start taking out the winter clothes, stacking the red gum for a cosy fire at night, or even organising a fun snow trip in our beautiful mountains.

Once again, it has been a challenging year and we all are aware that Coronavirus will be with us for some time. However, life is precious, time doesn't stop for anything, therefore it is important to ensure that we continue to live life as best as we can.

Like any other virus or crisis that happens in Australia, we all come together as a community to help others to get through the challenging times.

As a Nation, we are resilient.

Our thoughts go out to our clients that have loved ones overseas that they have not seen in such a long time, and we are fortunate that technology has been able to connect us in a way that we still feel close to them.

As always, we are here to assist in any way we can. Please reach out as we would love to hear from you.

Take care and stay safe.

New financial year rings in some super changes

As the new financial year gets underway, there are some big changes to superannuation that could add up to a welcome lift in your retirement savings.

Some, like the rise in the Superannuation Guarantee (SG), will happen automatically so you won't need to lift a finger. Others, like higher contribution caps, may require some planning to get the full benefit. Whether you are just starting your super journey or close retirement, a member of a big super fund or your own self-managed super fund (SMSF), it pays to know what's on offer.

Here's a summary of the changes starting from 1 July 2021.

Increase in the Super Guarantee[i]

If you are an employee, the amount your employer contributes to your super fund has just increased to 10 per cent of your pre-tax ordinary time earnings, up from 9.5 per cent. For higher income earners, employers are not required to pay the SG on amounts you earn above $58,920 per quarter (up from $57,090 in 2020-21).[ii]

Say you earn $100,000 a year before tax. In the 2021-22 financial year your employer is required to contribute $10,000 into your super account, up from $9,500 last financial year. For younger members especially, that could add up to a substantial increase in your retirement savings once time and compound interest weave their magic.

The SG rate is scheduled to rise again to 10.5 per cent on 1 July 2022 and gradually increase until it reaches 12% on 1 July 2025.

Higher contributions caps[iii]

The annual limits on the amount you can contribute to super have also been lifted, for the first time in four years.

The concessional (before tax) contributions cap has increased from $25,000 a year to $27,500. These contributions include SG payments from your employer as well as any salary sacrifice arrangements you have in place and personal contributions you claim a tax deduction for.

At the same time, the cap on non-concessional (after tax) contributions has gone up from $100,000 to $110,000. This means the amount you can contribute under a bring-forward arrangement has also increased.

Under the bring-forward rule you can put up to three years' non-concessional contributions into your super in a single financial year. So in the 2021-2022 financial year, you could potentially contribute up to $330,000 this way (3 x $110,000), up from $300,000 previously. This is a useful strategy if you receive a windfall and want to use some of it to boost your retirement savings.

More generous Total Super Balance[iv] and Transfer Balance Cap[v]

Super remains the most tax-efficient savings vehicle in the land, but there are limits to how much you can squirrel away in super for your retirement. These limits, however, have just become a little more generous.

The upper limit on the amount you can contribute to super over your lifetime is called the Total Super Balance (TSB). From 1 July the TSB cap was lifted to $1.7 million from $1.6 million. Once you reach this limit you are no longer allowed to make non-concessional contributions.

Just to confuse matters, the same limit applies to the amount you can transfer from your accumulation account into a retirement phase super pension. This is known as the Transfer Balance Cap (TBC), and it has also just increased to $1.7 million from $1.6 million.

If you retired and started a super pension before July 1 this year, you may not be able to take full advantage of the increased TBC. The rules are complex, so get in touch if you would like to discuss your situation.

Reduction in minimum pension drawdowns extended

In response to record low interest rates and volatile investment markets, the government has extended the temporary 50 per cent reduction in minimum pension drawdowns until 30 June 2022.[vi]

Retirees with certain super pensions and annuities are required to withdraw a minimum percentage of their account balance each year. Due to the impact of the pandemic on retiree finances, the minimum withdrawal amounts were also halved for the 2019-20 and 2020-21 financial years.

Age of retiree	Temporary minimum withdrawal	Normal minimum withdrawal
Under 65	2%	4%
65 to 74	2.5%	5%
75 to 79	3%	6%
80 to 84	3.5%	7%
85 to 89	4.5%	9%
90 to 94	5.5%	11%
95 or older	7%	14%

Source: ATO

But wait, there's more

Next financial year is also shaping up as a big one for super, with most of the changes announced in the May federal Budget expected to start on 1 July 2022.

The Budget included proposals to[viii]:

- repeal the work test for people aged 67 to 74 who want to contribute to super
- reduce the minimum age for making a downsizer contribution (using sale proceeds from your family home) to 60
- abolish the $450 per month income limit for receiving the Super Guarantee
- expand the First Home Super Saver Scheme
- convert legacy income streams
- allow lump sum withdrawals from the Pension Loans Scheme
- relax SMSF residency requirements.

All these measures still need to be passed by parliament and legislated.

Time to prepare

There's a lot for super fund members to digest. SMSF trustees in particular will need to ensure they document changes that affect any of the members in their fund. But these latest changes also present retirement planning opportunities.

Whatever your situation, if you would like to discuss how to make the most of the new rules, please get in touch.

i https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?anchor=Superguaranteepercentage

ii https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?anchor=Maximumsupercontributionbase

iii https://www.ato.gov.au/Super/Sup/Super-contribution-caps-will-increase-from-1-July-2021/

iv https://www.ato.gov.au/Super/Sup/Super-contribution-caps-will-increase-from-1-July-2021/

v https://www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/?anchor=transferbalancecap#transferbalancecap

vi https://www.pm.gov.au/media/supporting-retirees-extension-temporary-reduction-superannuation-minimum-drawdown-rates

vii https://budget.gov.au/2021-22/content/factsheets/download/factsheet_super.pdf

Why Everyone Should Have a Will

Estate Planning is not just for the wealthy!

Having a will is arguably one of the most important things you can do for yourself and your family. Not only can a Will legally protect your loved ones and your assets, but it can also spell out exactly how you would like things handled after you have passed on.

According to the Australian Bureau of Statistics, one Australian dies every 3 minutes and 13 seconds. It is an alarming statistic and it raises a lot of questions about what happens after someone passes away.

Everyone's situation is different and it is not one size fits all, however, here are some significant reasons why you should have a Will.

1 You can state who will benefit from your estate. If you should die without a Will, there is no guarantee that the people you would like to benefit from your hard work, will benefit from your estate.

2 If you have children, a Will allows you to make an informed decision about who should take care of them in the event of a death. Having a Will allows you to appoint the person you wish to raise your children. If you have adult children, you can clarify if you wish to hold their inheritance in a trust until they reach an age for them to release the inheritance.

3 De facto relationships. If you die without a Will, there is a possibility that your de facto partner may not automatically be entitled to your estate. You must seek advice to ensure you understand the best course of action to take to eliminate any disputes.

4 Minimise estate taxes. A Will which incorporates a testamentary trust may help minimise tax.

5 You decide the Executors who will handle your estate. Executors play the most important role with your estate, therefore, you will want to be sure the person who undertakes this role is honest, trustworthy, and organised. Your executor does not have to be a family member.

6 The cost to settle your estate may be significantly more than if you had a valid Will.

7 You can disinherit individuals who would otherwise stand to inherit. Because Wills specifically outlines how you would like your estate distributed, in the absence of a Will, your estate may benefit someone you did not intend to benefit.

It is important to understand that you are never too young to have a Will. Anyone over the age of 18 should consider having one and while it is possible to create a Will without involving lawyers or legal professionals, the potential for the Will to be disputed is higher.

If you do not have a Will or you need to amend your Will, please ensure you speak with a lawyer or seek a referral from your Financial Adviser to a lawyer that will give you comfort that your wishes will come true.

The latest government home schemes explained

There was some good news for first home buyers in the recent Federal Budget. It included a variety of new schemes and extensions to existing schemes, all aimed at helping more people realise their dream of home ownership.

Here's an overview of the assistance being made available and who can benefit.

Building your first home

On 1 July 2021, the *New Home Guarantee*, previously referred to as the First Home Loan Deposit Scheme, will release 10,000 places for first home buyers wanting to build a new home or buy a newly built home.

Any home buyer with less than a 20 per cent deposit normally needs to pay lenders mortgage insurance, which can represent a large additional cost at purchase or potentially add to your repayments if it forms part of your loan. With the *New Home Guarantee*, first home buyers can buy their home with a deposit of as little as 5 per cent without having to pay lenders mortgage insurance. This is because the government will guarantee up to 15 percent of the value of the property.

In order to be eligible for the *New Home Guarantee* scheme, you and/or your spouse or de facto partner, will need to be an Australian resident over the age of 18. There are several criteria you will need to satisfy including an income test, a prior ownership test, meet the owner occupier requirement and have a minimum 5 per cent deposit.[i]

Help for single parents with dependents

The new *Family Home Guarantee* is providing mortgage guarantees for single parents with dependants, who want to build a new home or buy an existing one.

The scheme allows single parents to buy a home with a deposit of as low as 2 per cent, and is open to single parents who are first home buyers or have been owner-occupiers before. To be eligible your annual income must be below $125,000. It is flagged to run for four years with the first 10,000 places opening on 1 July 2021.[ii]

The *Family Home Guarantee* works in a similar way to the New Home Guarantee Scheme and is an exciting initiative for single parents who are struggling to save a deposit.

Increases to tax-efficient deposit saving in your super

The Government is extending and increasing the *First Home Super Saver Scheme* (FHSSS) to help even more people buy their own home.

From 1 July 2022, you are able to release up to $50,000 from your superannuation to put towards a deposit for your first home. If two people are saving under the scheme, that's up to $100,000 you could add to your deposit. This is an increase from the $30,000 maximum per person previously available.[iii]

The great thing about this scheme is that you can benefit from the tax savings that apply to voluntary super contributions and the income those investments earn while saving for your first home deposit.

The changes apply retrospectively to valid FHSS release requests and contracts entered into on or after 1 July 2018. Please don't hesitate to give us a call if you are interested in applying for the scheme or would like to find out more.

Extension to HomeBuilder start dates

If you applied for a HomeBuilder grant but haven't started construction yet, there's good news for you too. The construction deadline has been extended from six to 18 months for all applications, which includes contracts signed between 4 June 2020 and 31 March 2021.[iv]

We're here to help

While having so many schemes on offer is great, it's easy to feel confused about which you qualify for.

If you'd like to discuss whether any of these schemes may be appropriate for your circumstances and how to apply, then please get in touch. It's never too early or late to start planning your path to home ownership.

i https://www.nhfic.gov.au/what-we-do/fhlds/eligibility/

ii https://www.nhfic.gov.au/media-resources/media-releases/update-from-the-australian-government-family-home-guarantee/

iii https://www.ato.gov.au/General/New-legislation/In-detail/Super/First-Home-Super-Saver-Scheme---increasing-the-maximum-releasable-amount-to-$50,000-and-technical-amendments/

iv https://treasury.gov.au/coronavirus/homebuilder

Please note that some of these schemes are not yet legislated at the time of publication.

The financial rewards of optimism

If it wasn't already clear, the past 12 months certainly cemented the fact that life has a habit of throwing us the occasional curveball. The reality is we all face challenges, however approaching life with a positive mindset can help us deal with any issues we may face and improve our lives in many ways.

Having a positive outlook not only improves our health and wellbeing, it can also have a meaningful and very real positive impact on our finances.

How optimism can improve our finances

If you have a cautious or anxious approach to your finances, such as worrying you'll never have enough money or being wary of spending, it will likely come as a surprise to hear that being optimistic can improve your financial situation.

A recent study connected the link between financial well-being and an optimistic mindset, finding that people who classify themselves as optimists enjoy 62 per cent fewer days of financial stress per year compared to pessimists.[i]

Superior financial well-being

When you are positive in your outlook, you are also much more likely to follow better financial habits in managing your money. Optimists tend to save for major purchases, with around 90 percent of optimists having saved for a significant purchase, be it a car, a house or an overseas holiday, compared to pessimists at just 70 per cent.[i]

However, optimism does not equal naivety and optimists still tend to have contingency plans in place for unforeseen events that may detrimentally impact their bottom line. Some 66 per cent of optimists had an emergency fund, compared to under 50 percent of the pessimists.[i]

This goes to show that maintaining an optimistic approach to your finances does still involve planning for the future. By being prepared, you'll reduce the stress that comes from feeling the rug could be pulled from beneath you without a safety net.

Your career and earning capacity

An optimistic approach to life and your career leads to achieving greater career success and the financial rewards that come with being successful in your job.

Optimists are 40 percent more likely than pessimists to receive a promotion within a space of twelve months and up to six times more predisposed to being highly engaged in their chosen career.[i]

Changing your attitude

Knowing that optimism is great for your wallet and your health is one thing, but how do you shift your outlook? If you're prone to worry, focussing on pessimistic outcomes or a bit of a sceptic, looking on the bright side of life can seem easier said than done.

It is possible to nurture optimism, and you get this opportunity every day. Cultivating optimism can be as simple as adopting optimistic behaviours.

So, what are the financial behaviours of optimists that we can emulate?

Optimists tend to be more comfortable talking about and learning about money and are more likely to follow expert financial advice than their more pessimistic peers.

Positive people display a correspondingly positive approach to their finances. They tend to put plans in place and have the courage to dream big. You don't have to be too ambitious in how you carry out those plans, every small step you take will help you to get where you want to be.

Everyone experiences setbacks at various times, however optimists rise to these challenges, learning from their past mistakes and persisting in their endeavours. Don't be too hard on yourself if you are experiencing difficulties. We all face challenges and during these times, focus on solutions rather than just the problems, be conscious of your "internal talk" and don't be afraid to seek out support. It's important to focus on what you can do differently going forward, this could be as simple as working towards a "rainy day" fund.

It's never too late to change your outlook. By embracing optimism, you can reap the rewards that a more positive outlook provides.

i https://www.optforoptimism.com/optimism/optimismresearch.pdf

The benefits of play for adults

Lawrence Robinson, Melinda Smith, M.A., Jeanne Segal, Ph.D., and Jennifer Shubin (2020)

Just because we are adults, that doesn't mean we have to make life all about work. Learn how play can benefit your relationships, job, and mood.

In our hectic, modern lives, many of us focus so heavily on work and family commitments that we never seem to have time for pure fun. Somewhere between childhood and adulthood, we stopped playing. When we carve out some leisure time, we are more likely to zone out in front of the TV or computer than engage in fun, rejuvenating play like we did as children.

But play is not just essential for kids; it can be an important source of relaxation and stimulation for adults as well.

Playing with your romantic partner, friends, co-workers, pets, and children is a sure (and fun) way to fuel your imagination, creativity, problem-solving abilities, and emotional well-being. Adult play is a time to forget about work and commitments, and to be social in an unstructured, creative way.

Play could be simply goofing off with friends, sharing jokes with a co-worker, throwing a frisbee on the beach, dressing up on Halloween with your kids, building a snowman in the yard, playing fetch with a dog, acting out charades at a party, or going for a bike ride with your spouse with no destination in mind. There doesn't need to be any point to the activity beyond having fun and enjoying yourself. By giving yourself permission to play with the joyful abandon of childhood, you can reap oodles of health benefits throughout life.

The benefits of having fun

While play is crucial for a child's development, it is also beneficial for people of all ages. Play can add joy to life, relieve stress, supercharge learning, and connect you to others and the world around you. Play can also make work more productive and pleasurable.

You can play on your own or with a pet, but for greater benefits, play should be away from the sensory-overload of electronic gadgets.

With fun and laughter in your world, you can:

Relieve stress

Play is fun and can trigger the release of endorphins, the body's natural feel-good chemicals. Endorphins promote an overall sense of well-being and can even temporarily relieve pain.

Improve brain function

Playing chess, completing puzzles, or pursuing other fun activities that challenge the brain can help prevent memory problems and improve brain function. The social interaction of playing with family and friends can also help ward off stress and depression.

Stimulate the mind and boost creativity

Young children often learn best when they are playing—a principle that applies to adults, as well. You'll learn a new task better when it's fun and you're in a relaxed and playful mood. Play can also stimulate your imagination, helping you adapt and solve problems.

Improve relationships and your connection to others

Sharing laughter and fun can foster empathy, compassion, trust, and intimacy with others. Play doesn't have to include a specific activity; it can also be a state of mind. Developing a playful nature can help you loosen up in stressful situations, break the ice with strangers, make new friends, and form new business relationships.

Keep you feeling young and energetic

In the words of George Bernard Shaw, "We don't stop playing because we grow old; we grow old because we stop playing." Play can boost your energy and vitality and even improve your resistance to disease, helping you function at your best.

It is never too late to develop your playful, humorous side. If you find yourself limiting your playfulness, it is possible that you are self-conscious and concerned about how you will look and sound to others when attempting to be light-hearted.

Feeling embarrassed or ridicule when trying to be playful is understandable and adults often worry that being playful will get them labelled as childish. But what is so wrong with that?

Children are incredibly creative, inventive and are constantly learning. Wouldn't you want to be childish, if that is the definition?

Remember that as a child, you were naturally playful; you didn't worry about the reactions of other people and as an adult, life should be no different.

Think about reclaiming your inner child by setting aside regular, quality time to laugh and have some fun. The more you play, joke, and laugh—the easier it becomes.

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