Welcome to our quarterly magazine – in this edition:

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Welcome to the last edition of our quarterly publication for 2018. This has been a big year for RI Advice as we made the transition from our former parent company at ANZ Wealth to IOOF who is Australia's second largest advice organisation, and we look forward to working with the team at IOOF to continue to deliver a comprehensive advice service to the circa 60,000 clients we currently support.

The Royal Commission into Misconduct in Financial Services is an extremely topical issue for many clients. RI Advice has embraced this review and look forward to the Commission's recommendations due in March next year. Please feel free to engage your financial planner should you have any queries regarding the Royal Commission and they will be happy to assist.

I wish you all the best for the festive season, until next year…

Peter Ornsby
RI Advice Group, CEO

Weaning young adults off the bank of Mum and Dad

Helping young adults become financially independent may benefit both them and their parents.

The bank of Mum and Dad has become an important source of funding for young Australians. Research has found that mums and dads are even helping their children to finance business startups.[1]

While it's natural for parents to want to help their kids, it may not be viable for the long term, and children will eventually need to be self-reliant. So how can parents help young adults become financially independent?

Teaching them about money

Teaching financial responsibility is one of the biggest lessons parents can give their kids. Children may find the journey to independence easier if they understand the importance of using money wisely.

You can begin by showing them how you use a budget and work with a financial adviser to help you prioritise and manage your finances and set goals.

Helping them save and set goals

Getting your children to save is not only a step towards financial independence – it may also teach them about the benefits of building a nest egg. Consider talking to them about how savings can grow over time through the magic of compound interest.

Driving home the importance of setting financial goals may encourage younger children to work hard and save money to achieve their aspirations.

RETIREINVEST

RI advice
Retirement Advice Specialists

For many young adults, perhaps the first goal is buying a car, but also talk to them about longer-term goals such as buying a house and contributing to a superannuation fund.

Being a positive influence

Children usually learn the concept of managing their money from their parents, so it's crucial to be a positive role model.

Having good financial habits may help parents ensure their kids develop a positive money mindset.

Withdrawing support

When it comes time for young adults to manage their own financial affairs, start by weaning them off parental support.

If you don't want to immediately cut them off, experts suggest giving them an allowance instead of paying their bills directly, so they can learn to budget and get used to the responsibility of managing their expenses.

It's important for parents to consider the consequences of sacrificing their financial wellbeing to support their adult children. While it's inevitable that parents will need to provide a lifeline for their kids every now and then, it's prudent to avoid doing it at the expense of their own retirement prospects and financial welfare.

1 Australian Housing and Urban Research Institute, 2017, 'A new look at the channels from housing to employment decisions'. Available at: https://www.ahuri.edu.au/__data/assets/pdf_file/0008/12023/AHURI_Final_Report_No275_A-new-look-at-the-channels-from-housing-to-employment-decisions.pdf

HOW TO MANAGE FINANCES IN A RELATIONSHIP

TALK ABOUT IT

Talk to each other about your finances and how to manage them, to avoid potential conflict.

DIVVY UP RESPONSIBILITIES

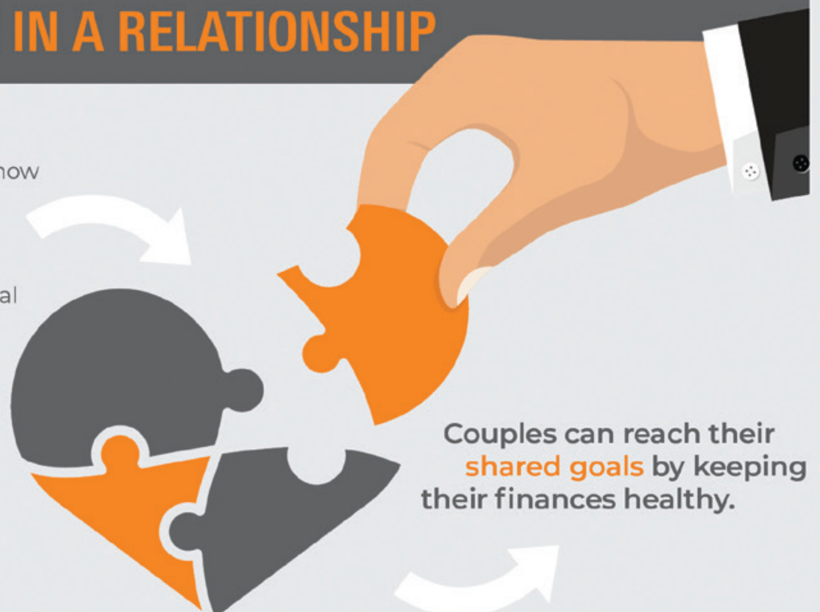
Adjust your priorities to set common financial goals and work together to save for them.

CREATE A BUDGET

Agree on a plan on how you will spend – and save – your money.

BUILD YOUR FUNDS

Consider helping each other to build your retirement funds, especially if one partner is not working or earns a low income.



Catch up on your super contributions

It's time to think about making 'catch-up' contributions to your superannuation.

The benefits of the super catch up rules will only be felt from 1 July 2019, but it's not too early to plan how you may use them to boost your retirement nest egg.

> The rules allow eligible individuals to beef up their super by catching up on their concessional contributions.

The concessional or before-tax contribution cap is currently $25,000 and includes salary sacrifice and mandatory employer payments. Members with a total super balance of less than $500,000 can 'carry forward' any unused amount below the concessional contribution cap on a rolling basis for five years from 1 July 2018.

For example, if you're eligible and make a total concessional contribution of $10,000 in FY2018–19, you'll be able to contribute $40,000 to your super the following financial year – $15,000 more than the normal concessional cap.

The scheme provides flexibility for qualified individuals to contribute to their super when they have the capacity to do so. It is particularly targeted at:

- people who take time out of work, work part time or have 'lumpy' or irregular income
- women, because they often have interrupted work patterns and generally lower super account balances than men
- individuals who take a break from the workforce due to illness, or to care for someone or pursue further studies
- older people who have more disposable income as their ongoing costs decrease.

Finding out if you're eligible

Even if you don't belong to any of the scheme's target groups, you may still make catch-up contributions using carried-forward amounts from 1 July 2019 if you meet the eligibility criteria. You can contribute in a financial year if:

- your contributions would otherwise exceed the concessional contribution cap for that year
- you had a total superannuation balance of less than $500,000 before the start of the financial year
- you have previously unused amounts under the concessional contribution cap in one or more of the previous five financial years.

If you are aged between 65 and 74, you must also meet the work test.

Other things to remember

Keep in mind that you won't be able to utilise your unused amounts in a financial year if your total super balance exceeded $500,000 in the previous financial year. But if your total balance falls below $500,000, in the next financial year you will once again be eligible to contribute shortfalls from the previous five years.

> Time limits also apply. Available amounts below the cap that are not utilised after five financial years can no longer be carried forward.

If you're thinking of using the catch-up rules, seek professional financial advice on how to use concessional super contributions to your advantage. Your financial adviser may also help you consider the tax implications.

The five key questions on aged care

If you are considering aged care for someone close to you, there are five questions you need to answer.

It's a fact of life that many of us will need to one day face the daunting task of seeking aged care for someone close to us. At first the complexity of dealing with the personal, practical and financial issues may seem overwhelming, but there are positive ways to address these issues and we can help you navigate through them.

Question 1 – What are the aged care options?

The degree of care needed is evaluated by an Aged Care Assessment Team (ACAT). ACAT comprises health professionals and social workers and their role is to assess if the person needs assistance with services, such as home care or residential care.

All facilities provide assistance in daily living such as meals, laundry and cleaning as well as care. However not all facilities can offer more intensive support for a higher level of care, such as full-time nursing care.

The ACAT assessment will determine the level of care you need to look out for so you can decide on a facility.

It is important to take a look first hand, to get a feeling for the standard of care available, any extra services available and to allow you to start comparing the pros and cons of different aged care homes.

Question 2 – What costs are involved?

The costs of residential care can be confronting for the uninitiated. Whilst facilities are not government run, the cost of care is partly funded by the government and there may be significant costs to residents.

For instance, all residents will pay a standard resident contribution. In addition, residents may be asked to pay a means tested care fee, which is based on their level of assets and income. Resident's assets and income will be assessed by Centrelink to determine the amount you pay and any government subsidies you are entitled to. Additional fees, such as extra service fees offered by the facility may also apply.

SUPPORT IN AGED CARE

As at 31 December 2017, there were **104,602** people waiting for a home care support package.[1]

26.70% had been waiting for more than **12 months**, although many had a lower care package in the interim.[1]

How do you increase your chances of receiving the support you need to stay in your home?

Note 1. Dept. of Health: Home Care Packages Program Data Report 2nd Quarter 2017-18. Figures correct as at 30 September 2017.

Depending upon your level of income and assets, you may be required to make an accommodation payment. You can choose whether you pay this as a lump sum, a daily payment, or a combination of the two.

You can elect to enter a nursing home with your ACAT assessment and waive the Centrelink assessments – however this may mean that you do not receive any Government subsidies.

While all these costs may seem difficult to digest, it's vital to seek some advice on strategies as there are ways and means to limit fee liabilities so that aged care doesn't end up costing more than is necessary.

Question 3 - What will happen to the family home?

In many cases, the family home will be the major asset to consider and once the reality of the costs of aged care start to become apparent, it may seem inevitable that the family home needs to be sold to fund these costs.

However, the situation with the family home needs to be carefully considered.

If a spouse remains in the home then the value of that home is not assessable for aged care purposes and this may serve to reduce the contribution to accommodation costs and the means tested care fee required by the aged care facility.

If the home is left vacant, however, then it is assessable. The question here is whether it is better to sell the home or to retain it and rent it out. There is no simple answer. It requires a careful analysis of the resident's other assets and income. This is one area where a financial adviser can relieve clients of the worry of making the wrong decision, by providing an objective analysis of where the home can fit into the overall plan.

Question 4 – What are the impacts on the age pension?

Maintaining age pension entitlements can be a very sensitive area for many people. If selling the family home is being considered, then it is important to factor in how this may affect pension levels, as the proceeds from the sale of the home may fall under the assets test once sold.

It may well be possible to keep the home, rent it out and use the income from this to fund the accommodation costs. Again, there are no simple answers here. The age pension may only be one component of income, so it is vital to consider the total income picture.

Question 5 – Making the most of ongoing income

Optimising ongoing income for the aged care resident can be quite a challenge once all the complexities of the aged care conversation are taken into account. Looking at fees, the age pension, the family home and other financial investments will all have an impact on what ongoing income can be generated.

Analysing all these issues and structuring the most effective solution takes some skill to organise and an understanding of how all the factors interrelate, so don't go it alone.

How to make working in retirement more enjoyable

Pursuing a job that gives you a sense of purpose and keeping a healthy routine may make working in retirement a fulfilling experience.

Many Australians choose to work part time after retirement instead of hanging up their work clothes completely. Data from the Australian Bureau of Statistics shows that 34 per cent of full-time workers aged 45 or over intended to switch to part-time work before retiring.[1]

Some people choose to lessen their workload to help ease themselves into retirement. Others want a higher income than what they would receive if they left the workforce altogether. Whatever the reason, working doesn't have to stop you from enjoying retirement.

After all, you have paid your dues, and deserve some flexibility and recreation. Here are some ways to help make your semi-retirement more enjoyable.

Choose a fulfilling job

Ideally, working in retirement should not be just about earning an income. While getting a regular pay cheque is good for your retirement fund, it's advisable to be selective about any job you accept. Doing something that's fulfilling or gives you a sense of purpose may help make it more worthwhile.

Seek flexibility

Having a flexible work schedule or work arrangement is also important. A flexible schedule may allow you to spend more time on creative or leisure activities, while the ability to work from home on some days may help achieve a good work–life balance. You could spend more time with your family and may even benefit from having a quieter and less stressful work environment.

Stay healthy

Staying physically and mentally healthy in retirement is crucial, and maintaining an exercise routine can help. Also consider joining walking, yoga, meditation or other groups in your community to make staying healthy more fun and motivating.

Engage in activities outside work

After working full time for many years, it's easy to end up spending more time at work than necessary. To break this habit, engage in a regular activity that will keep you busy and help you find fulfilment outside work. It can be as simple as learning a new computer skill or volunteering.

Consider your pension eligibility

Staying employed in retirement may be a great way to boost your income, but keep in mind that your earnings may have implications for your retirement benefits. For example, working when you have become eligible for the Age Pension may reduce your pension payments. Seek professional advice before accepting a job. Your financial adviser may help you optimise your retirement benefits while remaining employed.

1 Australian Bureau of Statistics, 2017, 'Retirement and Retirement Intentions, Australia, July 2016 to June 2017'. Available at: http://www.abs.gov.au/ausstats/abs@.nsf/mf/6238.0

Six ways to get the most out of a windfall

Received a large sum of money? By taking some practical steps, you can make sure your newfound wealth goes a long way.

Research has shown that on average, people who receive an inheritance spend about half of it.[1] So how can you make sure your windfall doesn't just vanish but helps you build a secure financial future? Here are six smart ways.

1. Set the money aside

To avoid the temptation of spending it impulsively, you could put the money away temporarily in a deposit account or short-term investment instrument. Leaving the sum aside for one or two months may give you more time to plan or engage a professional financial adviser for guidance on using the money wisely.

2. Settle your debts

Using your windfall to clear your debts can put you on a better financial footing. Consider working with your financial adviser to create a budget that considers all your debt obligations, income and windfall. This can also be a good chance to discuss the opportunity to invest and grow your money.

3. Grow your emergency fund

Building up your emergency fund – or creating one if you haven't already done so – can be another way to make good use of the money. By increasing the fund to cover your expenses for six months, you may be better positioned to handle unexpected events such as a job loss.

4. Beef up your retirement savings

Making extra contributions to your superannuation may help you optimise your windfall. Whether you make non-concessional contributions or, if you are employed, arrange to have a portion of your pre-tax salary paid to your super, increasing your retirement savings can help you secure your financial future.

5. Fund your goals

You may take this opportunity to build your savings for some of your personal goals, such as pursuing higher education or travelling to places on your bucket list. But consider doing this only after you've paid off your debts and built up your emergency fund.

6. Give to others

Receiving a large windfall can be a chance to help others in need. If you decide to give some money away, consider donating it to an organisation that's entitled to receive tax-deductible gifts, so you can claim a tax deduction.

1 The Ohio State University, 2012, 'Most Americans Save Only about Half of their Inheritances, Study Finds'. Available at: https://news.osu.edu/most-americans-save-only-about-half-of-their-inheritances-study-finds---ohio-state-research-and-innovation-communications/

We would like to take this opportunity to wish all our clients, friends and family a safe and happy festive season.

We look forward to working with you in 2019.

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