inTouch

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Welcome to our quarterly magazine – in this edition:

- What's new in superannuation?
- Fixed income: friend or foe?
- Personal insurance in a nutshell
- First-home buyers get some help
- Relaxation: The key to a healthy heart
- The benefits of a healthy diet
- Get a clearer pictures of your financial health in 15 minutes

Welcome to the third edition of inTouch for 2017.

This quarter we consider the importance of risk insurance cover, which is topical close to the festive season when we make time to consider what has changed in the past 12 months, our goals for the next 12 months and how we can stay properly protected. Risk insurance can form the foundation of a comprehensive financial plan, and our experience in dealing with clients who have met with trauma in their lives, always reminds us of the importance of considering this in our discussions with clients.

Our lifestyle article looks at healthy hearts – an often overlooked part of our health and wellbeing, yet the heart is one of our most important organs. Take a read, I hope you enjoy this quarter's articles.

Peter Ornsby
RI Advice Group, CEO

What's new in superannuation?

The Federal Government's ten superannuation reforms came into effect on 1 July. Here's what has changed.

The Federal Government says the reforms it announced in its budget make the superannuation system more sustainable. It has also made some rules more flexible to suit current working environments.

Access to concessional contributions

Previously, only people who earned less than 10 per cent of their income from salary or wages could claim a tax deduction for personal superannuation contributions. Now, generally, anyone under the age of 65 – and those aged 65 to 74 who meet the work test – can claim a tax deduction up to the concessional contributions cap.

This will benefit the 800,000 or so people* who are partially self-employed and partially wage and salary earners – such as self-employed contractors, individuals employed by small businesses, freelancers – and individuals whose employers do not offer salary sacrifice arrangements.

Non-concessional contributions cap cut

The annual non-concessional contributions cap has been cut to $100,000 and $300,000 for those eligible to use the bring-forward provisions. Non-concessional contributions will no longer be available to people with total super balances of $1.6 million or more by the end of the previous financial year.

RETIREINVEST

RI advice
Retirement Advice Specialists

People under the age of 65 will still be able to bring forward up to three years of non-concessional contributions.

This measure, which is aimed at discouraging tax minimisation, is expected to affect less than 1 per cent of fund members.*

The transfer balance cap

There is now a $1.6 million cap on the total amount that can be moved into superannuation during the tax-free retirement phase. However, subsequent earnings on balances in the retirement phase will not be capped or restricted.

The transfer balance cap will grow with the consumer price index, meaning the cap is projected to be about $1.7 million in 2020–21.

People with existing super income streams were required to take action by 30 June 2017 to ensure that they had no more than $1.6 million in super income streams. Those whose income stream balances were more than $1.6 million but equal to $1.7 million or less have until 31 December 2017 to ensure they take remedial action.

Less than 1 per cent of account holders will be affected,* as the average superannuation balance for a 60-year-old is expected to be $240,000 in 2017–18.

Additional 15 per cent tax for high income earners and concessional contributions cap

The income threshold at which high-income earners pay additional 15 per cent tax on certain concessional contributions has been reduced, moving to $250,000 from $300,000. The annual cap on concessional (before-tax) contributions has also been lowered to $25,000.

It works like this: Madeline will earn $260,000 in salary and wages in 2017–18 and will make concessional superannuation contributions of $30,000. Madeline's fund will pay 15 per cent tax on these contributions. Madeline will pay an additional 15 per cent tax on $25,000, which in effect means this amount is taxed at 30 per cent.

The $5,000 excess concessional contribution over the cap will be treated as income and taxed at her marginal rate with a 15 per cent non-refundable tax offset, which will mean she will pay $1,600 in tax.

Madeline can leave the $5,000 in her superannuation, in which case it counts as a non-concessional contribution.

If she doesn't want the excess concessional contribution to count as a non-concessional contribution, she could elect to refund 85 per cent of the excessive concessional contribution.

The Treasury says the reduced threshold will affect about 1 per cent of superannuation account holders, while the lower annual concessional contributions cap will affect about 3.5 per cent.*

Low-income superannuation tax offset

A low-income superannuation tax offset replaces the low-income superannuation contribution. Under this measure, eligible individuals with an adjusted taxable income of up to $37,000 can get refunds on the tax paid on concessional contributions up to a cap of $500.

This avoids the situation where low-income earners pay more tax on contributions than on their take-home pay. The refunds will go into the superannuation account.

It is estimated that about 3.1 million low-income earners will benefit, including about 1.9 million women.*

Catch-up concessional contributions

People with a total superannuation balance of less than $500,000 before the start of a financial year can use any carried forward unused concessional contributions for up to five years.

For example, Cassandra has a superannuation balance of $200,000 but will not make any concessional superannuation contributions in 2018–19 as she took time off work to care for a child.

In 2019–20, she can contribute $50,000 in concessional contributions ($25,000 under the annual concessional cap and $25,000 from her unused 2018–19 concessional cap which she can carry forward). In 2019–20, this will help about 230,000 people.*

The spouse tax offset extended

The spouse tax offset is now available to more couples as eligibility has been extended to people whose recipient spouses earn up to $40,000. This is an increase from $13,800, and about 5,000 people are expected to use the change.*

Innovation barriers removed

The tax exemption on earnings in the retirement phase has been extended to encourage the creation of a wider range of products. This will provide more flexibility and choice for retirees to help them avoid outliving their savings.

Transition to retirement income streams

Taxable income from assets supporting transition to retirement income streams are no longer tax-exempt at the super fund level. Instead they will be taxed concessionally at 15 per cent.

Pension payments continue to be tax free if the individual is 60 or over

Individuals will also no longer be allowed to treat certain superannuation income stream payments as lump sums for taxation purposes. About 110,000 people will be affected.*

Anti-detriment rule abolished

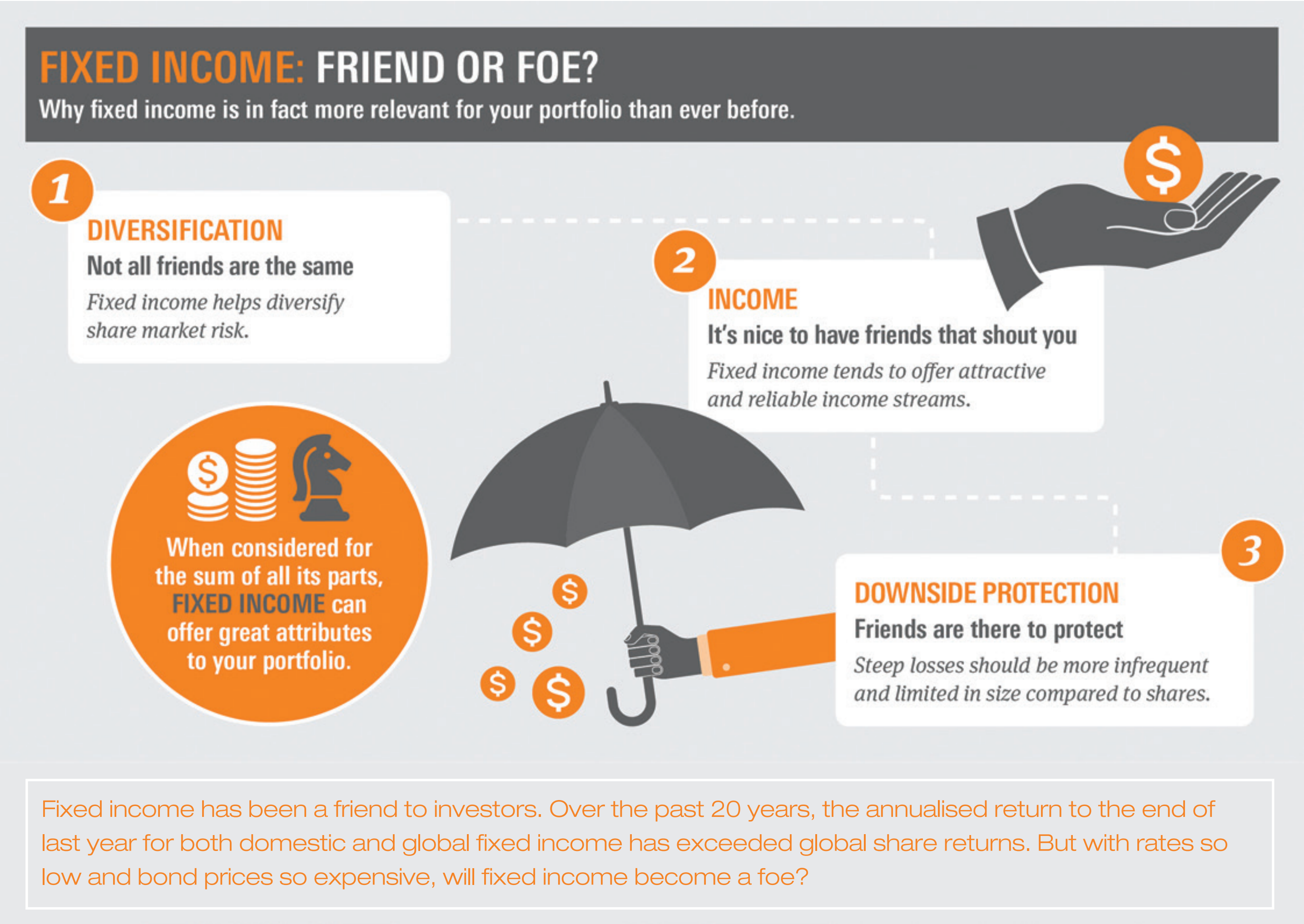
The anti-detriment provision that allows superannuation funds to claim a refund of the 15 per cent tax on contributions paid by the deceased member over their lifetime has been abolished.

However, lump sum death benefits for eligible dependants will remain tax free.

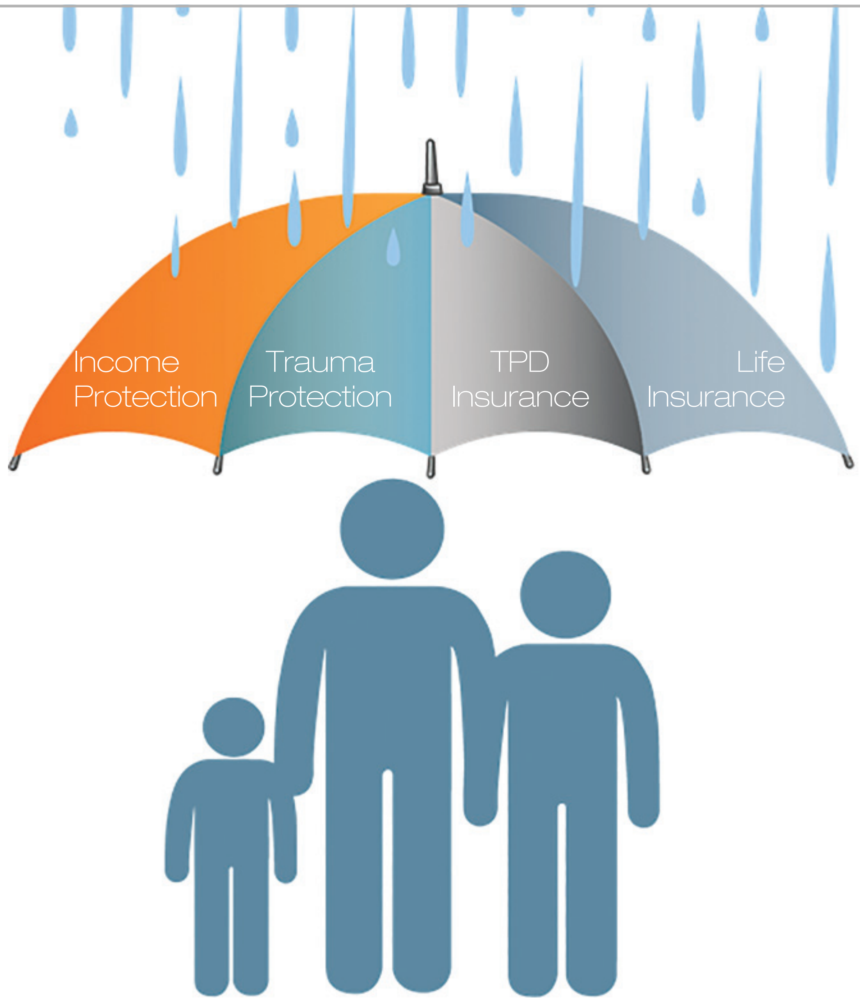
Seek advice

As these changes are very complex, it's a good idea to talk them through with an expert. A financial adviser may help you understand how these changes affect your unique financial situation, which may give you the confidence you need to make great decisions about your future.

*Source: Australian Government, The Department of the Treasury, 'Superannuation Reforms'.



Personal insurance in a nutshell



Income Protection

What is it for?

If you have an accident or suffer an illness and you're unable to work, or only work in a reduced capacity, your sick leave runs out and you no longer earn your full income, how will you afford to live?

Income Protection insurance provides you with, typically, 75% of your usual salary in monthly payment instalments so you can keep making loan repayments, stay on top of household expenses and continue to generate savings for your future.

When should I get it?

As soon as you have an income and a lifestyle you want to be able to maintain.

What are the chances I'll need it?

60% of working Australians will, at some stage, need to take a prolonged break from work as a result of illness or injury*. So, there is a high likelihood that you would benefit from having this cover.

* TAL Facts of Life Study

Life Insurance (aka Death cover)

What is it for?

If you were to die or become terminally ill when people are still dependent on you to provide for them, life insurance pays a one-off amount (a "lump sum") that your beneficiaries can use to continue living the life you had planned together, for example:

- Continue living in the family home
- Provide for their education
- Cover living expenses
- Pay off debts.

When should I get it?

Even if you don't yet have any dependants, it makes sense to get life insurance while you're young and healthy – i.e. when you can get cover with low or no medical checks and no restrictions on your cover. It could be included in your superannuation, but you need to check and be sure that it matches your individual needs. Life insurance included by default with Super can be very limited.

Total & Permanent Disability (TPD) Insurance

What is it for?

If you have an accident or illness that means you are permanently unable to work, TPD insurance pays you a one-off amount (a "lump sum"). You can use it for any purpose you like but usually people use it to:

- Pay for home modifications and lifestyle changes
- Pay for long term care and ongoing medical expenses
- Pay off debts – e.g. a mortgage, personal loans
- Invest and fund an ongoing income for their family.

When should I get it?

Even if you don't yet have any dependants, it makes sense to get TPD insurance while you're young and healthy when you can get cover with low or no medical checks and no restrictions on your cover. It can be included in your superannuation, but you need to check and be sure that it matches your individual needs. Default TPD included with Super can be very restrictive. In particular, definitions of "total and permanently disabled" vary significantly. Another important variable is whether it covers you for "any occupation" or "own occupation".

Trauma Protection

What is it for?

If you suffer one of the listed serious medical conditions like cancer, heart attack, stroke or an accident, trauma insurance pays you a one-off amount (a "lump sum"). You can use it for any purpose you like but usually people use it to:

- Pay for treatment costs over and above what is covered by Medicare or Health Insurance – and these can be very substantial
- Pay for the best treatment available (this could include treatment overseas)
- Make lifestyle changes so they can focus on healing – like permanently reducing the number of days they work, making modifications their home such as ramps and rails, and funding a family member to take time off work to support them in their recovery
- Take some time off work or take a stress-free family holiday
- Invest to fund an ongoing income for their family
- Take pressure off their finances by reducing debt.

When should I get it?

Even if you don't yet have any dependants, it makes sense to get Trauma insurance while you're young and healthy when you can get cover with low or no medical checks and no restrictions on your cover.

What are the chances I'll need it?

It depends on your age. Asteron Life, a major insurer in Australia, found that:

- Only 5% of trauma claims were made by people in their 30s
- A massive 68% of trauma claims were made by people in their 40s.

Source: www.asteronlife.com.au/the-danger-decade-for-australians

First-home buyers get some help

State and federal governments are creating new incentives to help first-home buyers get into the overheated housing market.

Buying your own home is the largest purchase decision most people will make in their lives. However, a long run of low interest rates has fuelled spectacular dwelling price growth, record housing debt and phenomenal asset values, particularly in Sydney and Melbourne. According to the Reserve Bank of Australia, housing prices nationally have increased 7.25 per cent a year, on average, over the past 30 years.

Financial analysis and advisory firm CoreLogic adds that housing affordability has worsened over the past 15 years by every measure. It now takes 1.5 years of household income to save for a 20 per cent deposit on a dwelling compared with 0.8 years 15 years ago, the firm's Perceptions of Housing Affordability Report 2017 shows.

Government assistance

There are incentives prospective first-home buyers can use to make their dream of owning their own home come true. This year's Federal Budget, for example, proposes allowing individuals to make voluntary contributions to their superannuation accounts to save for a house deposit.

It is proposed that super contributions and earnings be taxed at 15 per cent, rather than higher marginal rates. Withdrawals would be taxed at their marginal rate, less 30 percentage points. Contributions would be limited to $30,000 per person in total and $15,000 per year and both members of a couple could take advantage of the scheme.

Additional non-concessional contributions could also be made but would not benefit from the tax concessions apart from the earnings being taxed at 15 per cent.

Currently, the NSW and Victorian governments offer first-home buyers:

- no stamp duty on all homes worth up to $650,000 in NSW and $600,000 in Victoria
- stamp duty relief for homes worth up to $800,000 in NSW and $750,000 in Victoria
- a $10,000 grant for builders of new homes worth up to $750,000 and purchasers of new homes worth up to $600,000 in NSW
- no duty on lenders mortgage insurance in NSW
- a $20,000 grant for new homes built in regional Victoria valued at up to $750,000 – which is double the amount available in metropolitan areas.

Seek advice

There are many investment options that can help you build a deposit, each of which has different risk and return factors, but you don't have to make financial decisions by yourself.

Sources:

- www.rba.gov.au/publications/bulletin/2015/sep/pdf/bu-0915-3.pdf
- www.corelogic.com.au/resources/pdf/reports/housing-affordability/2017-05-CoreLogicHousingAffordabilityReport_May2017.pdf

Relaxation: The key to a healthy heart

Just relax – it could save your heart. A recent study definitively linked stress with heart disease, but there are simple ways to de-stress and stay healthy.

Stress is part of modern life and it has long been suspected that it may play a part in heart disease.

The bad news is that a multi-year study published in the medical journal The Lancet shows that being chronically stressed takes a serious, and lasting, toll on your health and increases the risk of heart disease.

Stress apparently triggers the amygdala – the part of the brain keyed specifically to respond to stress – which then activates bone marrow and inflames the arteries.

This is a survival reaction that prepares the body for a potentially harmful experience, such as injury, which would have been essential for the earliest humans. Bone marrow produces the white blood cells necessary for tissue repair. Widening the arteries increases blood flow. However, in the modern environment, the over-production of white blood cells can cause a build-up of plaque in the arteries and lead to heart disease.

The people in the study with higher amygdala activity had a greater risk of cardiovascular disease and developed problems sooner than those with lower activity.

"Eventually, chronic stress could be treated as an important risk factor for cardiovascular disease, which is routinely screened for and effectively managed like other major cardiovascular disease risk factors, such as smoking, high blood pressure and diabetes," says study author and cardiologist Dr Ahmed Tawakol, co-director of the Cardiac MR PET CT Program at Massachusetts General Hospital.

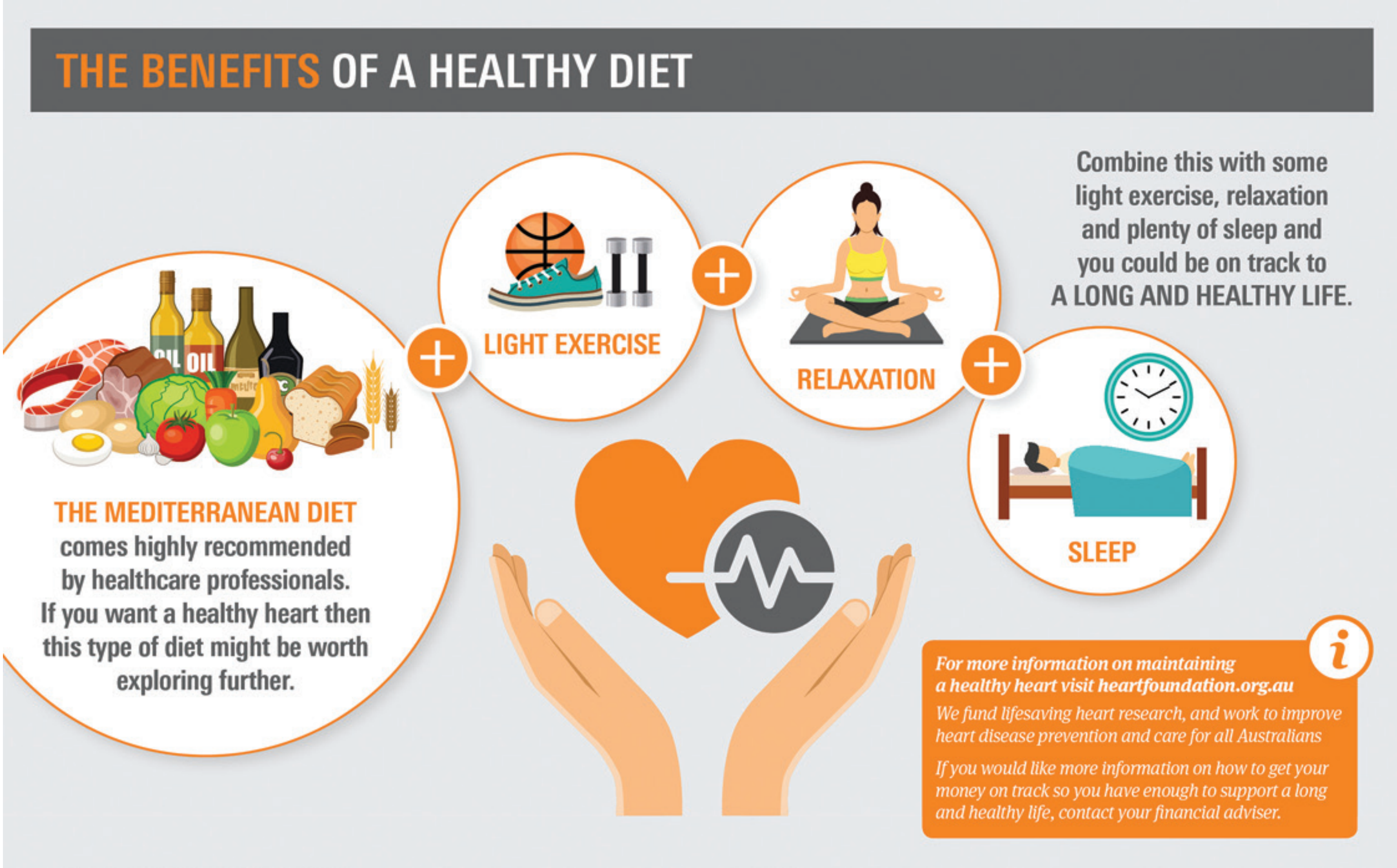
"So far, it appears that things like mindfulness and other stress-reduction approaches seem to really nicely tamp down on the amygdala, and they appear to even cause benefits in other areas of the brain."

The other stress-reduction approaches are diet and exercise. Regular exercise triggers feel-good chemicals in the brain such as dopamine and endorphins. It also regulates and reduces the damage the stress hormones cortisol and adrenaline cause.

Physical activity can relax your muscles and relieve tension, making it a great way to combat stress. Exercise also helps enrich the brain with oxygen and nutrients, which can improve cognitive functioning and leave you feeling energised and alert. As a result, your mental focus and emotional stamina get a boost, which means you're in better shape to tackle the challenges of daily life.

You should team a good exercise regime with a healthy diet that limits the intake of refined sugar, saturated fats, salt and alcohol, and increases the amounts of fruits, vegetables, grains, legumes, lean meats and unprocessed foods.

As an added bonus, you may even lose weight!



Get a clearer picture of your financial health in 15 minutes

As financial advisers, we often talk to people about their goals for the future. In many cases they have an idea of where they want to end up, they're just not sure how they're going to get there. Or if it's even possible in their circumstances. Helping people achieve their goals is rewarding but there's more important steps before we can worry about what's happening 10, 20 or 30 years from now.

First, we need to establish where they're starting from.

You might be surprised by how few people have a clear picture of their current financial position. But it's really not that surprising when you consider the amount of time and effort that can go into financial management. It's easy to put it on back burner and keep it there.

The problem is, if you don't have a clear picture of your current position, it's hard to know what you could be doing better. Or where your biggest opportunities lie.

We have a fantastic new online tool that can produce a personalised 'Wealth Report' in around 15 minutes.

By answering a few simple questions about yourself and your finances, you can end up with a single report that consolidates your individual financial information.

This includes information about:

- Your work and income
- Your household and other expenses
- Your physical and mental health
- Your superannuation and other investments
- Your protection plan against sickness and injury.

Armed with your Wealth Report, you no longer have to guess about how you're travelling financially. That makes it easier to identify any areas of potential improvement – such as opportunities to pay your home loan off faster, reduce your everyday spending or close any protection gaps.

Importantly, it also gives you a baseline you can use to measure against in the future, so you can keep an eye on your progress and see what you're doing well (or not so well!).

Contact our office to get access to your own confidential Wealth Report for free.

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