The Count Report

Drive your wealth strategy this EOFY

Choosing to insure inside or outside super

Useful apps to monitor your spending

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Welcome

A message from the CEO

Welcome to the Winter edition of The Count Report.

With a new financial year just around the corner, now is an important time to take a look at your financial strategy and work with your financial adviser to come up with a powerful ‘to do’ list.

In our feature article, ‘Drive your wealth strategy this EOFY’, we look at nine simple but effective ways to fine tune your strategy before June 30.

A common question that I often hear people ask is whether to hold personal insurance inside or outside super. Getting it right can be beneficial in many ways and in this edition, ‘Choosing to insure inside or outside super’ compares the issues and the benefits for each option.

And if you enjoy using technology to manage your finances, we also explore four useful apps that can help you monitor your spending.

Finally, our back page ‘Facts & figures’ has an interesting comparison of tax statistics between now and a century ago.

I hope you enjoy reading this edition of The Count Report. Along with your Count Financial Adviser we look forward to helping you reach your financial and lifestyle goals in the future.

Regards,

David Lane
Count Financial Chief Executive Officer

“With a new financial year just around the corner, now is an important time to take a look at your financial strategy.”

David Lane

Useful apps to monitor your spending

These days there's no excuse not to keep on top of your spending with a number of personal finance apps easily accessible on your smart phone. Here are four of our free favourites from ASIC.

1 TrackMyGOALS

Track your savings goals on the go with this easy-to-use app.

TrackMyGOALS helps you cultivate good savings habits and reach your dreams by creating realistic savings goals, prioritising your goals to ensure they can be achieved and providing positive encouragement by tracking your progress.

2 TrackMySPEND

This basic budgeting app allows you to track your expenses on the go and give you a clear picture of what you are spending your money on. Key features: export data to CSV or Excel, tracking bar to monitor spending against budget and ability to view expenses history.

3 MoneySmart Financial Calculator

Need help with financial decisions when you're out and about? This app enables you to easily access five of ASIC's most popular calculators in one app. You can easily calculate amounts according to savings, loan, mortgage, superannuation and interest-free deals.

4 Money Health Check

Released by MoneySmart, this app helps you find out if your finances are under control and what areas need attention. Key features: personalised assessment of your financial health and a list of your top five actions.

Drive your wealth strategy this EOFY

The end of the financial year is arguably the most important time for you to re-visit and fine tune your financial strategy. Here we have compiled a list of nine simple but powerful to-dos.

1) Increase personal super contributions

What? Concessional contributions are pre-tax contributions to super. They include your employer's compulsory contributions, salary sacrifice contributions or personal tax-deductible contributions if you're eligible. However, there are caps on how much you can contribute per financial year before additional tax applies – in the case of concessional contributions, $30,000 for those aged 48 or under on 30 June 2014, and $35,000 for anybody aged 49 or over on the same date. If you have not already reached your concessional cap, you can consider making additional contributions to your super before 1 July 2015.

Why? For most Australians earning under $300,000 p.a., these contributions attract a tax rate of 15% (instead of being taxed at your marginal tax rate). If your marginal tax rate is over 15%, this can be a very effective way to reduce your tax bill.

Result: Boost your superannuation balance and reduce your tax bill.

2) Seek a government co-contribution

What? If your total income is $34,488 p.a. or less, and you have made at least $1000 in after-tax contributions to your super, the Government could top up your contribution by another $500 (other eligibility conditions apply). In fact, those earning up to $49,488 p.a. can take advantage of this co-contribution, however, the maximum amount you receive reduces as income rises above the base of $34,488 p.a. or as your level of after-tax contributions reduces.

Why? This initiative encourages people to add to their superannuation account.

Result: Especially if you're young, these bonus contributions can make a meaningful difference. If you're in your mid to late 20s, consider this very basic compound interest calculation – $1500 deposited annually for 40 years (a total of $60,000), at an annual interest rate of 5%, will be worth $181,200*.

*This figure was calculated using ASIC MoneySmart Compound Interest Calculator – taxes, fees and other costs not taken into account.

3) Check your Low Income Super Contribution eligibility

What? Those earning $37,000 p.a. or less may be eligible for the Low Income Super Contribution (LISC) of up to $500. The amount automatically added to your super account is 15% of the amount of your concessional contributions (including super guarantee and salary sacrifice or personal tax deductible contributions if eligible) up to the maximum. This effectively pays back any tax on those contributions.

Why? This payment helps boost super balances of low-income earners. It should also encourage people to ensure they claim all work-related expenses in order to bring their annual income down to the LISC eligibility level of $37,000.

Result: The LISC contribution means part or all of the concessional contributions made to your super fund are tax-free.

4) Sacrifice your bonus salary

What? – One of the most powerful ways to boost retirement wealth tax-effectively is to salary sacrifice into super. This is best done gradually throughout the year, but can also include end of financial year bonuses or pay rises. Speak with your employer about setting this up.

Why? – Salary and bonuses paid to you are taxed at your usual rate, or more if they bump you up into the next bracket. Direct this extra income towards super (check you're not breaching your concessional contributions cap) and you'll potentially reduce your taxable income and personal tax bill, while the tax paid on the salary sacrifice is generally only 15%.

Result – If you are on a tax rate of 32.5% (every dollar earned over $37,000), 37% (every dollar earned over $80,000) or 45% (every dollar earned over $180,000), then you could see this rate reduced to 15% for the sacrificed funds*. Note: anybody with total income (including fringe benefits and certain super contribution amounts) of more than $300,000 pays 30% tax on part or all of their concessional contributions.

* Other levies may also apply in addition to these rates.

5) Contribute to your spouse's super

What? – If you have a spouse, your spouse is under the age of 65 or satisfies a work test and is aged 65 to 69, and earns $10,800 or less, the first $3000 you contribute to their super fund could receive an 18% tax offset. This offset slides down to zero once their income hits $13,800 per annum.

Why? – You receive a tax offset of up to $540 and your spouse's superannuation balance is boosted.

Result – You lose less income to tax. Your spouse's super balance is boosted. And at retirement the two of you enjoy greater combined wealth.

6) Gather your investment and work-related expenses

What? – Costs related to producing investment or work income, whether they be around accounting, advice, management fees, interest payments on loans, repair costs, uniforms, dry cleaning, motor vehicles etc, may be tax deductible.

Why? – Investment and work expenses can pay you back by helping to reduce your taxable income. So collect all eligible receipts from the financial year to report in your tax return. And while we're on the topic, don't forget your receipts for charitable donations, too.

Result – A reduction in taxable income means less funds leaving your account in the form of tax, and a greater chance of a refund.

7) Pre-pay investment loan interest

What? – You may be able to pre-pay up to 12 months of interest on an investment loan.

Why? – Interest charges on investment loans are generally tax deductible.

Result – Pay interest on investment loans in advance during this financial year and it could reduce your taxable income.

8) Pre-pay income protection insurance premiums

What? – As with investment loan interest, you may be able to pay up to 12 months of income protection insurance premiums in advance.

Why? – Income protection insurance premiums are generally tax deductible.

Result – Paying tax deductible premiums in advance can reduce your taxable income this financial year.

9) Plan the use of your tax refund

What? – Make a plan before a tax refund enters your account as to how it is best utilised.

Why? – Many treat their tax refund as a bonus, as extra spending money. But if used well it can make a serious difference, whether it is being invested to save a home deposit, paying off high-interest debt, being put away in a savings account or simply going into your super.

Result – Using simple compound interest calculations (ASIC MoneySmart calculator), if you deposit a tax refund of $1000 per year for 10 years into an investment account earning 5% per annum compounded annually, ignoring fees it will be worth $12,578.

EOFY tips for life stages

Which of the strategies above may apply to you?

Under 40

- Increase your personal super contributions
- Seek a government co-contribution
- Check your LISC eligibility
- Sacrifice a little salary
- Gather all of your investment and work-related expenses
- Plan the use of your tax refund

40 to 49

- Increase your personal super contributions
- Sacrifice a little salary
- Contribute to your spouse's super
- Gather all of your investment and work-related expenses
- Pre-pay investment loan interest
- Pre-pay income protection insurance premiums
- Plan the use of your tax refund

50 to 59

- Increase your personal super contributions
- Sacrifice a little salary
- Contribute to your spouse's super
- Gather all of your investment and work-related expenses
- Pre-pay investment loan interest
- Pre-pay income protection insurance premiums
- Plan the use of your tax refund

60 and over

- Pre-pay investment loan interest
- Pre-pay income protection insurance premiums
- Contribute to your spouse's super
- Gather all of your investment and work-related expenses

Don't forget, there may be other strategies which are also suitable for your personal situation. Please speak with your financial adviser to find out what other opportunities you could take advantage of by no later than 30 June 2015.

Choosing to insure inside or outside super

There are several questions that must be answered before figuring out whether to hold personal insurance inside or outside super. Getting it right can be beneficial in many ways. Here we compare the issues and the benefits for insuring inside and outside super.

For effective personal insurance cover there is much to consider. What types and levels of cover do you require? Are you paying your premiums tax-effectively? How and when do your beneficiaries access your insurance proceeds after death, or how do you access proceeds in the event of a serious illness or injury? Can proceeds be accessed early if necessary? For you or for anybody you know that is considering a solid insurance strategy, these are vital considerations.

A good question to begin with when fine-tuning your insurance strategy is whether to hold insurance inside or outside of super. Getting this decision right involves coming up with the answers to many other questions.

Types of insurance

Many superannuation funds offer three basic forms of personal insurance. These are Life, Total & Permanent Disablement (TPD) and Income Protection. Other types of insurance such as trauma cover generally cannot be held within super.

Seek insurance outside a super fund and you can mix and match types of cover. Policies can sometimes be packaged up with one provider, to lower premiums, which could otherwise be more expensive outside the super environment.

Levels of insurance

Automatic, and typically low, levels of Life or Life and TPD cover within a super fund can be fine for a young person starting their first job. But for somebody at another life stage – with a partner, children and a mortgage, for instance – it can be a different story.

Insurers providing cover within super can put caps on their levels of cover. It is important to make sure you ask your fund about these limits and levels. Outside super the levels of cover can be more flexible, but this will also depend on your age and health.

Medical check-ups

Fund members automatically offered insurance often do not need to undergo a medical check-up. The funds instead spread risk amongst their many members.

At the same time, while it can be possible to find cheaper premiums outside of the super environment, issues such as age, health, lifestyle and job-risk matter. As insurance is offered on a case-by-case basis, individuals are treated as just that – individuals. For some this can mean higher premiums, but it can also lead to greater flexibility and customisation.

Policy customisation

Thanks to superannuation law restrictions, which restrict what policy definitions and the level of customisation that can occur to a policy, insurance policies within a super fund can be less flexible. Automatic covers usually require little, if any, consultation with the fund member. This may or may not suit a member's needs.

Policies outside super begin with a customisation process. This can be important for those that require specific levels of cover, and for policy holders that want to be sure of what is covered and of how, when and to whom payments are made after an insurable event.

Tax effectiveness and paying premiums

For the majority of fund members it is difficult to beat the tax effectiveness of personal insurance paid within a super fund (although life insurance benefits paid from super can be subject to tax if paid to a non-dependent such as an adult child). Premiums are often paid out of compulsory super payments made by your employer or voluntary concessional contributions such as salary sacrifice. In addition, your super fund can generally claim a tax deduction for premiums it pays. This means that unless you're a high-income earner or depositing more than your annual concessional amount, the premiums are generally paid from income that has not been taxed.

At the same time these premiums, while not being paid from your own pocket, are eating away at your final super balance. So if you'd prefer to reduce such outgoings then seeking insurance outside your fund could be the answer.

Conclusion

The question of insuring within or outside a super fund, or a mix of both, is one with no right or wrong answer. The solution lies with the needs of each individual. Once you have settled on the answer, it is not a set-and-forget decision. With each life stage and major event – marriage, childbirth, mortgage, pay rise etc. – comes new and different responsibilities. So be sure to check in with your insurance every so often.

Benefits of both

Insurance inside super	Insurance outside super
Can offer greater tax effectiveness on payment of premiums (benefits may be taxable)	Can offer a greater selection of types of insurance
Premiums can be cheaper	Policies are typically more flexible and more easily customisable
Often require no medical checks to get automatic level of cover	Can offer higher levels of cover
Can allow you to remain covered during periods of low cash flow	Premiums don't eat away at your final super balance

What about SMSFs?

Trustees of a Self-Managed Super Fund (SMSFs) must be able to prove that they have 'considered' insurance for the fund's members. Inside an SMSF, insurance operates much the same as it does in a retail fund. The policies are owned by the trustee of the fund. Premiums are generally paid by the fund from within each member's fund balance and are generally tax-deductible to the fund.

The added benefit over certain insurance policies within retail funds is that the insurance policies within SMSFs may be more customisable but still need to comply with superannuation rules restricting the types of cover that can be held. It can be a best-of-both-worlds situation, combining tax effectiveness with flexibility.

Facts & figures

Modern-day tax stats

According to the Australian Tax Office's Annual Report 2013/14

$321.7 BILLION ($419.2 BILLION GROSS)

was the sum of net tax collected and

69c

was the cost to collect every $100 of tax.

ANNUAL COMPLAINTS

to the ATO were down 9.5% year-on-year to 23,900 in 2013/14.

16.5 MILLION

tax returns were lodged last financial year, with 81.7% of these being lodged on time.

Historical tax stats

In 1910/11, the first year of organised federal taxation in Australia, the Federal Tax Office collected

$154.6 BILLION (GROSS)

in today's dollars, compared to $419 billion in 2013/14.

PENALTIES IN 1911 INCLUDED:

£100

Failure to send a return or making a false return.

10%

The percentage of tax owed for late payment.

£500

Maximum fine plus three times the tax evaded for under-valuing your property.

105

the number of staff employed by the Tax Office in 1911.

15,000

the number of tax returns lodged in 1910/11. Land tax was the only type of federal tax, compared to over 125 taxes today.

Sources: ATO Annual Report 2013-2014 Working For All Australians 1910-2010: A brief history of the Australian Taxation Office.

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