The Count Report

Insurance priorities for all ages

Take charge of your retirement journey

Gifts that may not keep on giving

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Count

Welcome

Welcome to the Autumn edition of The Count Report.

Many people start the new year with good intentions to get financially healthy, but as circumstances change it's not always so simple. Now is a good time to see how your goals for 2016 are shaping up and work with your financial adviser to stay on track.

In this edition 'Insurance priorities for all ages' looks at how a large number of Australians are under-insured and what options are available depending on your stage of life.

In our feature article 'Take charge of your retirement journey', we explore the ways that having a sound financial plan in place will help turn your retirement dreams into a reality.

'Gifts that may not keep on giving' looks at how gifting money or assets to family members can be a kind and compelling idea, as long as you know how various rules might affect your wealth.

And our back page 'Facts & figures' has some interesting stats about the current retirement trends in Australia.

We hope you enjoy reading this edition of The Count Report and look forward to helping you reach your financial and lifestyle goals in the future.

Insurance priorities for all ages

Are your family, friends or adult children part of the large percentage of Australians who are under-insured? Here's a simple guide to stage-of-life insurance priorities.

Research indicates that the majority of Australians are under-insured. Rice Warner's recent report,[1] for instance, said the median level of life insurance for working-age Australians covered only 42% of the financial needs (to maintain their standard of living) of remaining family members.

The first call for insurance advice should be a financial adviser. Here are the areas they are likely to cover.

Life stage – Early career

This is a wonderfully busy and social period, but if you're unable to work for two or three months, perhaps due to an injury on the ski slopes or an illness, how will you pay the rent or save for a house deposit?

Income protection is essential, plus a choice of TPD or Trauma insurance (explained below) is also recommended. A financial adviser can help figure out exact levels of cover required.

Income protection – covers up to 75% of current income, subject to a waiting period. Premiums may be tax deductible.

Total & permanent disability (TPD) – if you are permanently disabled and cannot work again the insurer pays a pre-agreed lump sum.

Trauma insurance – if you are diagnosed with a particular life-threatening illness covered by the policy, the insurer pays a lump sum.

Life stage – Family with young children

Priorities have shifted. You're making your way up the work ladder but the pressures of a mortgage, a second car and young children are being felt.

What if you were suddenly unable to work? What if an accident or illness meant you were no longer around to help care for your family? How would mortgage repayments and school fees be met?

Suggestions for this period include a selection from the previous three covers – **Income protection**, **TPD** and **Trauma** – as well as Life insurance. A financial adviser can ensure you are neither over-insured nor under-insured.

Life insurance – pays your beneficiaries a lump sum if you were to pass away.

Life stage – Mature couples and singles

You likely have a sense of financial comfort. You're feeling healthy but are aware that you're entering an age bracket in which heart attacks, strokes and other serious illnesses can strike.

This is arguably the most important stage for personal insurance, whilst building a retirement fund, paying down a mortgage and supporting children.

Life insurance should be the priority. Also consider a mix of, **Income Protection**, **TPD** or **Trauma**. If you're self-employed, discuss **Business Overheads cover**, which looks after fixed operating expenses if you can't work due to illness or injury.

Life stage – Retiree

Life insurance seems less important, but do you have debt? If yes, think about how it might affect loved ones if you were no longer around. Make sure debt is covered during discussions with your financial adviser.

Trauma cover and/or **TPD** are still of great value. With another few decades to enjoy, the last thing you need is the expense of a serious illness or injury.

Take charge of your retirement journey

Whether you're already retired, planning to retire next year or in 20 years, knowing the kind of lifestyle you want in retirement and having a sound financial plan in place will help make your retirement dreams a reality.

When will you retire? How long will you spend in retirement? How much money will you need in retirement? What will your retirement lifestyle look like? If you're already retired, what should your budget look like and what will you need to plan for as you get older? Your financial adviser can also assist with the complexities of aged care and help you select the preferred option for your individual situation. Answering these questions now can give you real peace of mind, and lead to a satisfying, fulfilling and financially secure retirement.

Retirement lifestyles – which one suits you?

Beer or bubbly? Caviar or chips? Harbour-front mansion or sea-change shack? We all have different hopes, dreams and lifestyle requirements. Defining yours is an important step in planning your retirement.

In order to help define how much you'll need to spend each year in retirement, now or in the future, the Association of Superannuation Funds Australia (ASFA) releases an updated *Retirement Standard*[2] every quarter. This *Retirement Standard* benchmarks how much, in today's dollars, retired singles and couples aged around 70 need to spend each year to enjoy what ASFA define as either a 'comfortable' or 'modest' retirement lifestyle described using everyday indicators.

A '**comfortable**' retirement is defined by ASFA as enabling an older, healthy retiree to be involved in a broad range of leisure activities and to have a good standard of living through the purchase of such things as: household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.

Funds required per year for a 'comfortable' retirement lifestyle:

Single – $42,962 per year
Couple – $58,915 per year.

A '**modest**' retirement is defined by ASFA as better than the Age Pension, but still only able to afford fairly basic activities such as one or two short breaks in Australia closer to where you live, infrequently eating out at cheaper restaurants, owning an older car, buying reasonable clothes, haircuts at basic salons, infrequent paid leisure activities and private health cover but with little money left over for home repairs.

Funds required per year for a 'modest' retirement lifestyle:

Single – $23,695 per year
Couple – $34,090 per year.

Age Pension only: includes day trips in your own city, only inexpensive takeaway meals, no car, basic clothes, less frequent haircuts, very low cost leisure activities, less heating in winter, no private health insurance and no budget for home repairs.

Single – $22,666 per year
Couple – $34,169 per year.

Of course, you may prefer more than a 'comfortable' lifestyle. But these ASFA figures provide excellent starting points for understanding the potential costs of living in retirement.

Planning for later years of retirement

Australians are living longer and spending more time in retirement than ever before. An increasing number of Australians will live to age 90 and beyond.[3] This may bring a new set of challenges to retirement, which can mean it's even more important to have a plan in place.

Last year ASFA also launched a new Retirement Standard for older retirees, *Spending patterns of older retirees: New ASFA Retirement Standard*,[4] designed to provide a picture of how spending requirements change as people enter their late 80s and early 90s, again benchmarking both a 'comfortable' or 'modest' lifestyle. Perhaps spending more on health care and support including medical costs while spending less on leisurely activities. This information can help those who have already retired plan for later years and budget accordingly.

Funds required per year for a 'comfortable' retirement lifestyle for older retirees:

Single – $38,460 per year
Couple – $59,937 per year.

Funds required per year for a 'modest' retirement lifestyle for older retirees:

Single – $23,062 per year
Couple – $34,257 per year.

It's also important to discuss with your financial adviser how you can plan for aged care costs, should you eventually need it. According to ASFA[5] the probability of requiring aged care is high – the likelihood that a female aged 65 will enter permanent residential aged care in her lifetime is 54% and for a male this is 37%.

This means aged care planning is an important part of your retirement plan, so no matter how near or far, or even if you don't think you will need it, talking to your financial adviser about it now can help you be financially prepared for whatever the future may hold.

When can you access funds for your retirement?

Currently you must be at least 65 to be eligible for the Government Age Pension, but from 1 July 2017 the qualifying age will increase by six months. It will continue to increase by six months every two years until 1 July 2023, when the qualifying age will be 67.

The 'preservation age', or the age at which you can access your super, ranges from 55 to 60, depending on when you were born. Accessing your super when you retire, assumes you have reached the preservation age or some other condition of release. If you are not permanently retired then you may still be able to access part of your super under a transition to retirement pension. Whether you're working or not, once you're over 65 you can access your super.

What does retirement look like for Australians?

The Australian Bureau of Statistics (ABS) *Retirement and Retirement Intentions, Australia*[6] (July 2012 to June 2013) says the average age for recent retirees, or those that had retired in the five years prior, was 63.3 years for men and 59.6 years for women.

The main reasons for retirement, the ABS report says, were 'reached retirement age/eligible for superannuation/pension' and 'sickness, injury or disability'.

Of the 4.7 million people in the workforce and over the age of 45, 3.7 million people unsurprisingly said they intend to retire sometime in the future. Far more interesting is the fact that 605,400 people said they never intend to retire, and 385,500 did not know whether they intend to retire.

Around 40% of full-time workers said they intend to work part-time before retirement, to phase in the retirement lifestyle. And 54% of this group said they intend to change to a different line of work during their transition to retirement.

Finally, of the people intending to retire, the ABS states:

- 17% intend to retire at 70 or older
- 49% intend to retire between 65 and 69
- 25% intend to retire between 60 and 64
- 9% intend to retire between 45 and 59.

This makes the average age of intended retirement 63.4 years. More importantly, the figures indicate the broad range of options available. No longer is a full-time worker offered a gold watch and shown the door at a certain age. There are many choices around retirement, particularly for those that have achieved their financial goals.

If you haven't already, when will you retire?

The figures from the ASFA Retirement Standard assume retiree age of 65. If you plan to leave work five years earlier, that is five more years of income you'll require. But if you're one of the 17% of full-time workers that plans to stay in the workplace until you're 70 or older, the opposite is true.

Putting a date on your retirement, whether it is likely to change or not, is important in terms of planning. Knowing your time left in the job market helps you to figure out your risk profile and investment mix. And knowledge of the number of years you're likely to be retired for helps you to understand how much you'll need in retirement.

Being in control of your retirement timeline and familiar with all of the relevant facts means you're able to make changes along the way, and can be confident in the end result. But you don't need to do it on your own.

A financial adviser will continue to walk you through your retirement planning process – whether it's near, far or you are already enjoying it. Your financial adviser can recommend the financial strategies that can assist you in reaching your retirement goals, such as salary sacrificing, concessional and non-concessional contributions, transition to retirement, spouse contributions and also help you with aged care planning. Starting to take charge and plan now can only help your retirement plans.

Gifts that may not keep on giving...

If you have planned well and feel financially secure for the years ahead, gifting money or assets to family members can be a kind and compelling idea. Just make sure you know how the rules might affect your wealth.

Whether it's transferring a holiday house to your children or giving money to pay for your grandchild's education, gifting can be a rewarding experience for both the giver and the recipient.

However, what seems like a simple gesture sometimes comes with a catch. This generous act may be subject to Centrelink Rules that can have an impact on your pension and allowance entitlements.

The rules of gifting

Centrelink gifting rules apply to any gifts made in the five years before receiving a government pension or allowance, such as the Age Pension. If you are a self-funded retiree, it may be the case that no rules apply to how you gift your money or assets. But from the point at which you are five years from potentially receiving a pension, gifting must comply with Centrelink rules.

You can gift up to $10,000 each financial year, and up to a maximum of $30,000 over five years, and gifting within these limits could reduce your total assets and therefore potentially increase your Age Pension payments. You are required to inform Centrelink about any gifts or transfers within 14 days of when they have occurred. If you exceed this maximum amount, it will affect the calculation of your pension entitlements.

Consider the following case study. A retired couple wishes to gift $70,000 to their daughter and son-in-law for a house deposit. As this amount exceeds the annual maximum allowance by $60,000 (the gift amount of $70,000 minus the maximum annual allowance of $10,000), $60,000 will continue to be assessed as the couple's financial asset for next five years. It will also be deemed to earn interest at the current deeming rates, which are the assumed rates of return Centrelink applies to your financial investments. In the case of our retired couple, the $60,000 financial asset is deemed to earn income at 1.75% per annum (assuming there are no other financial investments).

Gifting bricks and mortar

With housing affordability an ongoing concern, many parents wish to help their children buy their first home, or a larger home. This may be done by gifting the deposit for a house, transferring a property to a family member or selling them a house for less than market value. It is worth noting that selling them a house for less than its market value may still be considered gifting. Furthermore it may bring other financial costs such as stamp duty and capital gains tax.

Consider our retired couple again. Rather than gifting $70,000 to their daughter, they decide to sell their investment property to her for $400,000, which is $100,000 less than its market value. Because the sale price is significantly lower than the market price of the property, the couple did not receive adequate financial considerations, the deprivation has occurred and the excessive gifting amount of $90,000 (the property's undervalue of $100,000 minus the maximum annual allowance of $10,000) will be assessed as a deprived asset for the 5 years from the date of the gift, and will be subject to the income deeming provisions, currently at a rate of 1.75% for the first $80,600, and 3.25% for the remaining $19,400 (assuming there are no other financial investments). As the couple bought the house after 20 September 1985 the sale is subject to capital gains tax, calculated at the property's market value rather than sale amount. The stamp duty paid by their children will also be based on the market value of the house.

Tax on gifting

There is no specific 'gift tax' in Australia, but if the benefactor invests the money they receive then they will be liable for tax on any income it earns.

Suppose our generous retired couple wishes to give $30,000 over three years to their grandson to help with his education. The gift is not taxed as income, however if it is invested in their grandson's name, any income that is generated from the investment will be taxed. Special taxation rules apply to Australian residents under the age of 18 who generate 'unearned income' and money generated from investments in their name may be taxed.

To avoid this, the couple may consider holding the funds in a trust for their grandson. As trustees, the couple would be responsible for the funds, which would be assessed against their Age Pension. Note that trust distribution paid to minors are still taxed at higher rates.

Securing your own financial future

Passing on wealth to family members is a generous gift, however it's important to discuss with your financial adviser your own lifestyle needs in retirement before deciding how much to gift.

The pension asset limit is currently $205,500 in assets (excluding your home) for a full Age Pension for a single person and $291,500 in assets (excluding their home) for a couple. Your pension rate reduces by $1.50 a fortnight for every $1000 over the asset limit. This reduction will double from 1 January 2017 when your pension will be reduced by $3 per fortnight for every $1000 of assets you own over the full pension limit.

Gifting is an act of goodwill that comes with limitations. It may have an impact on your quality of life after retirement, so please seek advice from your financial adviser.

Taxation considerations are general and based on present taxation laws and may be subject to change. You should seek independent, professional tax advice before making any decision based on this information. Count is also not a registered tax (financial) adviser under the Tax Agent Services Act 2009 and you should seek tax advice from a registered tax agent or a registered tax (financial) adviser if you intend to rely on this information to satisfy the liabilities or obligations or claim entitlements that arise, or could arise, under a taxation law.

Facts & figures

Retirement in Australia

The Australian Bureau of Statistics' Retirement and Retirement Intentions paper[7] offers a fascinating comparison of retirees from the past, present and future.

Less reliant on Age Pension

– Retirees who report 'government pension or allowance' as main source of income – **46%**

– Pre-retirees, 45 and over, expecting 'government pension or allowance' to be their main source of income – **27%**

Increasing importance of SUPER

– Retirees reporting 'superannuation, annuity or allocated pension' as main source of income – **17%**

– Pre-retirees, 45 and over, expecting 'superannuation, annuity or allocated pension' to be their main source of income – **49%**

Australians over 45 intending to work past 70 –

1 in 5

Population facts[8]

In 2013 Australians aged 45 and over numbered **8.79 million**. Of these:

- **3.3 million** had retired from the workforce
- **581,400** currently employed people said they never intend to retire
- **369,300** did not know when they would retire
- Amongst retirees from the labour force, **25%** of males and **55%** of females retired under the age of 55

All facts from Australian Bureau of Statistics Retirement and Retirement Intentions June 2013.[9]

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