The Count Report

Make today count

Federal Budget reforms: what will they mean for you?

Facts and figures

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Count

Welcome

Welcome to the Summer edition of The Count Report.

As the weather heats up and the days are longer, summer is a great time of year. Many people will take a well-deserved break from work to unwind, reflect on the year that was, and start planning their goals and objectives for the year ahead. It's also a great time to think about your financial plan and what you need to do to keep on track.

In this edition of The Count Report, 'Make today count' looks at how even though your financial strategy should be for the long term, there are things you can do each day to help you achieve your goals sooner.

We also look at recently proposed changes to super and tax rules and although these reforms are yet to be legislated, how they could impact your financial strategy.

And our back page 'facts and figures' has an interesting mix of where Australians are spending their money.

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.

Make today count

Even though your financial strategy should be for the long term, there are things you can do each day to help you achieve your goals sooner. Here are five to get you started.

When we consider our financial goals, we tend to think of them as things that will happen at some distant point in the future. Since our goals are such a long way off, it's easy to ignore them in our day-to-day life.

But instead of thinking about where your finances will be down the track, have you thought about the little things you can do today, tomorrow and next week to reach your goals sooner?

If you take action each day, before you know it the results will speak for themselves. You'll also get a sense of achievement in knowing that every day you're making a positive difference to your future.

Here are five simple ways you can make today count, so you can begin 2017 on the right foot.

I will pay off my debts

If you're juggling a mortgage and credit cards, plus other debts like a car loan or personal loan, you probably feel like most of your income is being swallowed up by interest payments. But don't despair: here's what you can do right now to knock your debt on the head once and for all.

Take a few minutes to write a list of all your debt amounts and their interest rates. Then, reorder the list, putting the debt with the highest interest rate at the top. This is the one you should focus on paying off first, so you can minimise the amount of interest you're adding to your debt. You might also want to consolidate all your credit card debts on a single card that offers the lowest interest rate.

Where you have some debt that is tax-deductible and some that is non-tax deductible, paying off the non-tax deductible debt first can also help to save you tax.

If you have a home loan, chances are you're expecting it to take years or even decades to pay off. But remember, every bit extra you put into it now will help you pay it off sooner. And whenever you chip away at the principal amount, it also reduces the interest you have to repay.

ASIC's Mortgage Calculator at moneysmart.gov.au is a handy online tool that shows how many months or years you could slash off your home loan, simply by changing the amount or frequency of your repayments.

I will start saving

If you're living from one pay cheque to the next just to keep up with bills and household expenses, the idea of a long-term savings strategy can seem a bit out of reach. But here's the secret to saving: every little amount adds up. That's why you should start saving today – it might even be easier than you think.

First up, ask yourself: do you know where all your cash is going? If the answer is no, then it's time to take control of your cash flow by creating a budget and sticking to it. For the next month, keep a record of everything you spend each day. You might be surprised at how much the little things can add up over time.

Then, think about how you can make some cuts. For example, you could ditch your morning coffee or take a packed lunch to work each day. With simple measures like these, another month down the track you'll have a decent amount of surplus cash that you can put straight into a high-interest savings account.

I will take control of my investments

A long-term investment strategy is the best way to build wealth for the future. The longer you have to invest, the more time you have to ride out any dips in the market that could otherwise put a dent in your returns. That's why it's a good idea to build your investment portfolio as soon as possible – your future self will thank you.

If your investment goal is still quite a way off, you might want to invest in high-growth assets that will potentially give you higher returns over time.

A simple way to take charge of your investments today is to take a look at how your super is currently invested. If you're using your super fund's default investment mix, it may not be the best option for you. Instead, you might want to make some adjustments so that your investments are more in line with your stage of life and your future income needs.

If you're in doubt, ask your financial adviser to create an investment strategy that will allow you to achieve all your lifestyle goals.

I will protect what I love

Insurance may not be something you think about on a daily basis, especially if you're young and healthy. But the reality is that we never know when life will throw us a curve ball, so it makes sense to have a financial safety net in place. And even if you have personal insurance already, do you have the right levels of cover to take care of all your family's needs?

For example, research shows that parents with two dependent children need an average of $680,000 in life insurance – but the typical default cover from a super fund is only worth about $200,000.[1] So if you're relying on your fund's default cover, it might not be enough to maintain your family's lifestyle if you passed away. Or even if you became sick or injured and couldn't work for a while, would you and your loved ones struggle to make ends meet?

Working out how much cover you need can be complicated, so be sure to ask your financial adviser to guide you. But you can get started today by thinking about this question: If something happened to you, how much money would your loved ones need to be able to pay off your debts, protect their standard of living and prepare for the future?

I will boost my super

Your super has the potential to become one of your most valuable assets. The more you put into it now, the more you'll get out of it when it's time to retire – especially when you consider how your earnings compound over time. Here's what you can do right now to help grow your nest egg.

First, make sure you only have one super account, (unless there's a specific reason why you need multiple accounts). If you've changed employers over the years you might have ended up with multiple accounts in different super funds – which are all charging you fees. So choose your preferred fund and then ask them to track down all your lost super and roll it over into a single account.

Next, provided it's right for your circumstances, you could talk to your employer about setting up a salary sacrificing arrangement so you can put some of your pre-tax dollars straight into super. Using ASIC's Superannuation Calculator at www.moneysmart.gov.au you can see how even a small contribution on a regular basis can make a big difference at retirement. For example, if you're aged 35 and earn $70,000 a year, salary sacrificing just $50 a week could add up to an extra $73,000 or more by the time you retire.[2]

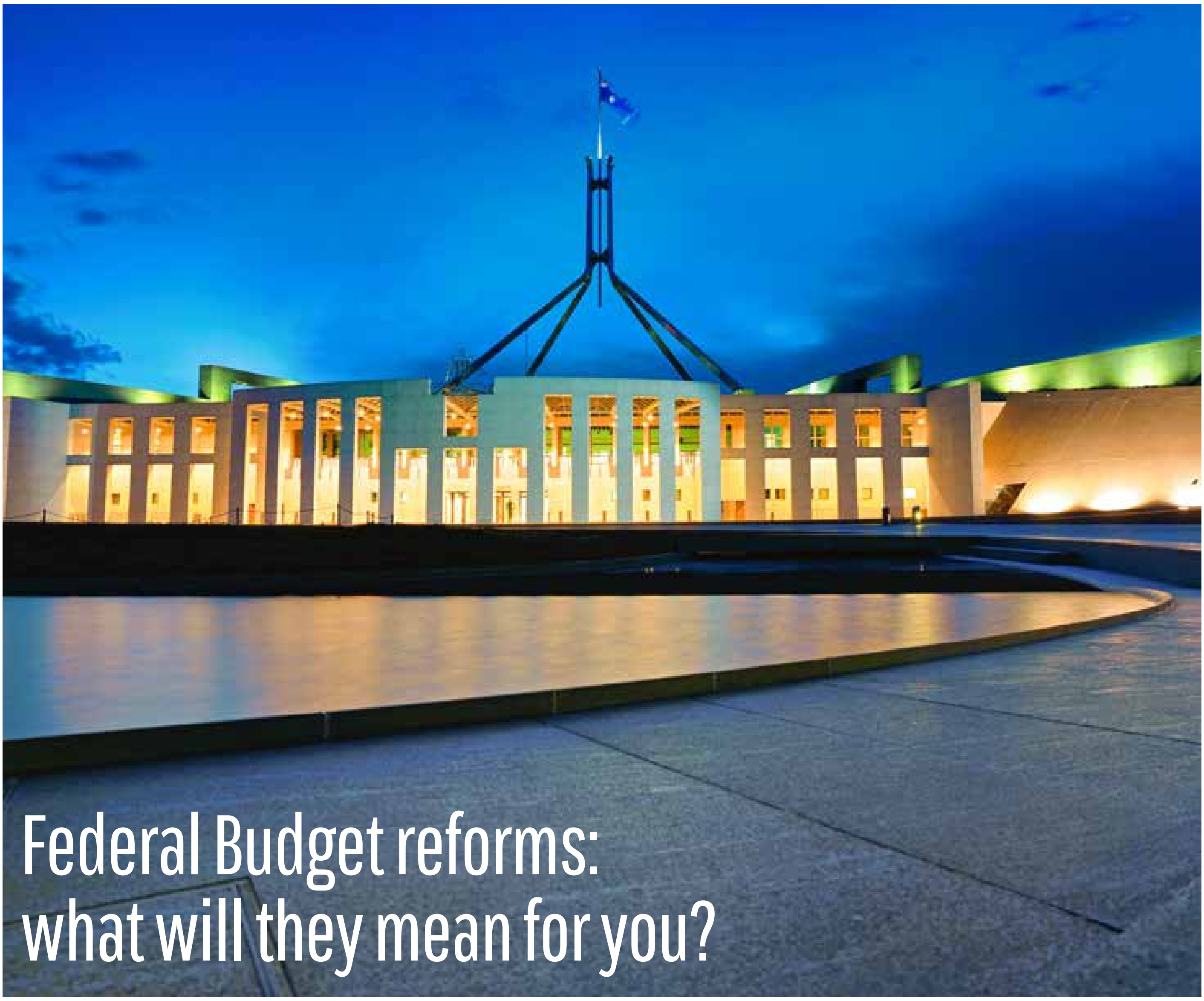
How your financial adviser can help

No matter what financial position you're in, there are plenty of things you can do today to start building the future you want. But the most important one is to talk to your financial adviser. With their experience and expertise, your adviser is in the best position to guide you at each stage of your financial journey.

As well as helping you create a long-time financial strategy, your financial adviser will show how you can break it up into small, achievable milestones. Not only will this be easier to track your progress, it will also give you a clearer idea of what you can do to make each day count.

1 Rice Warner, 2015. Australia's persistent life underinsurance gap.

2 Calculated using the MoneySmart Superannuation Calculator. Assuming an investment return of 5.7% pa and a retirement age of 67.



Federal Budget reforms: what will they mean for you?

In this year's Federal Budget and in subsequent announcements, the Coalition government proposed widespread changes to super and tax rules. Although these reforms are yet to be legislated, it's important to know how they could impact your financial strategy.

Not long after May's Budget announcement, Australia went to the polls for what was to be a very close election. Although the Coalition eventually came out on top, the question remains: what does the election result mean for the Budget proposals?

Half a year on, the future of the reforms is still in limbo as Labor and the other parties consider which ones they'll support. The Government has also subsequently announced some changes to its original proposals. But with many of the proposals scheduled to take effect on 1 July 2017, it's worth understanding how they could affect your financial strategy if they become law.

Here are some of the major Budget reforms – and how they could affect your retirement planning.

Reduced caps on super contributions

One of the main ways Australians save for their retirement is through pre-tax or 'concessional' contributions to super. These are the contributions made by your employer or through salary sacrificing, which are usually taxed at the low rate of 15%. At the moment these contributions are capped annually at $30,000 if you're under 50 or $35,000 if you're 50 or older, but the government is proposing an annual cap of $25,000 across the board from 1 July 2017.

And what about after-tax or 'non-concessional' contributions? These are currently capped at $180,000 a year (or $540,000 spread over three years if you're eligible). Although the government initially proposed an immediate lifetime cap of $500,000, they have now instead proposed reducing the annual cap to $100,000 a year (or $300,000 in a three-year period if you're eligible) from 1 July 2017. In addition, once your total super balance exceeds $1.6 million, you'd no longer be able to make further after tax contributions from 1 July 2017.

If you're making the most of the current contribution caps to grow your super, these proposals could throw a spanner in the works. So if you think you'll be impacted, speak to your financial adviser. They'll show how you can adjust your strategy to make the most of the new caps and also perhaps invest in other assets outside super.

Contributions tax for high income earners

While most concessional contributions are taxed at 15%, this tax rate is doubled on your contributions if your annual income is $300,000 or more. However, the government is looking to reduce the threshold for this 'Division 293 tax' by $50,000. In this case, from 1 July 2017, part or all of your concessional contributions will be taxed at 30% if you earn above $250,000.

So if this reform is likely to affect you, ask your financial adviser about the most tax-effective retirement strategy for your circumstances.

Offsets for low earners

If you're on a low income, the good news is that you'll still get a tax break on your concessional contributions. If it's passed by parliament, the government's proposed Low Income Superannuation Tax Offset (LISTO) scheme will replace the current Low Income Superannuation Contribution (LISC) scheme, which is due to finish up on 30 June 2017. Under the new LISTO scheme, if your income is less than $37,000 a year, and you make concessional contributions (including your employers Super Guarantee), you'll get a tax offset of up to $500 a year added to your super balance.

The Coalition is also pushing to increase the current threshold for the spouse super tax offset from $10,800 to $37,000. So if you're earning less than $37,000 your spouse will get an 18% offset for contributions they make to your super – up to a maximum rebate of $540.

Tax changes for TTR pensions

Current transition-to-retirement (TTR) rules help pre-retirees grow their nest egg as much as possible during their final years of work. If you're still working but you've reached your preservation age (the age you're allowed to access your super), you can start drawing a pension from your super fund. This means you can salary sacrifice part of your earnings into super, with your pension income making up the shortfall in your take-home pay.

There are currently two key benefits of a TTR pension strategy:

Income from assets supporting your TTR balance are tax free (instead of being taxed at up to 15% like regular super assets)

The TTR payments you receive might be subject to less tax than the salary you've sacrificed into super would have been (eg, TTR pension payments are normally tax free once you reach age 60)

However, the government is proposing to remove the tax-exempt status of income from assets that support TTR income streams. If this is legislated, earnings within your TTR pension will be taxed at 15% from 1 July 2017 – regardless of when you set it up.

If these changes become law, a TTR strategy may no longer be the most tax-effective way to boost your retirement savings. Talk to your financial adviser about alternative strategies that will help you meet your lifestyle goals.

Ask your financial adviser

No matter what stage of life you're at, these and other Budget proposals could have a major impact on your financial strategy. That's why it's worth getting in touch with your financial adviser, so you'll be well prepared if and when the changes take effect. Your adviser can help adjust your strategy if needed, so you can make the most of the reforms that will benefit you and avoid losing out from the ones that won't.

Facts & figures

$79,000

the average debt per person living in Australia

Australian Bureau of Statistics, 2014. Trends in Household Debt, 4102.0.

50%

of life insurance premiums are paid through super

Rice Warner, June 2015. Australia's Persistent Life Underinsurance Gap.

$2704

the average amount Australian households spend on holidays each year

ASIC, 2016. Australian Spending Habits.

37%

of property investors have household incomes under $100,000 per year

LJ Hooker, 2015. Investor/Tenant Survey.

$2 trillion

the total amount Australians have invested in super assets

ASFA, May 2016. Superannuation Statistics.

5.7 million

the number of 'lost' super accounts in Australia

Australian Taxation Office, June 2016. Super Accounts Data Overview.

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Looking after your financial life