Prepare for Life

LIFE FINANCIAL PLANNERS Pty Ltd

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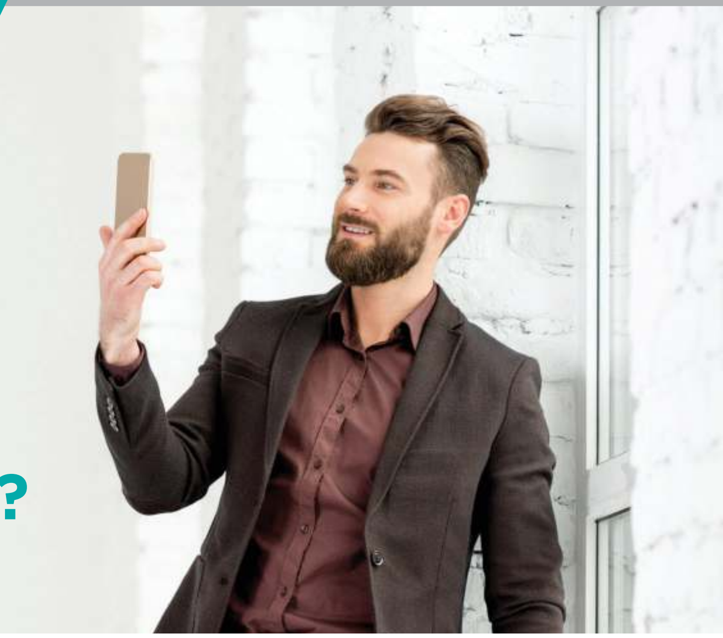


COULD SELFIES BE YOUR PASSPORT TO HEALTHIER INSURANCE?

By Zurich

We all do it – well, most of us. Taking pictures of ourselves on our smartphones for the sole purpose of posting them online for other people to see, like and comment on.

Social media is awash with selfies. They have – quite literally – become the face of a generation.

Up to this point, selfies have just become part of our modern culture. But what if they could do so much more? What if they were about to become one of the most powerful predictors of your future health and wealth?

This is no longer the realm of science fiction. Thanks to a new program called 'Chronos', your facial lines and contours, droops and dark spots could indicate how well you're ageing, and could someday help underwriters qualify people for valuable life insurance.

Your face tells your own unique story

Two people of the same chronological age rarely experience the same rate of biological ageing.

Chronos claims that by analysing an image of someone's face, they can return the most precise, reliable and individualised lifespan estimates attainable. This is achieved by measuring their rate of biological ageing through facial analytics, which is what accounts for individual differences.

For example, it remains a fact that some people smoke and live to be 100 while some non-smokers die of lung cancer at an early age. With facial recognition technology, it is now possible to identify smokers who are likely to live longer.

How would it work?

Chronos combines three aspects:

- Patented facial analytics.
- Biodemographic information in the form of a questionnaire about things like family history.
- Analysis of life event data by a team of experts.

A customer would upload a selfie to an online database and answer industry standard questions around health, lifestyle and other decision factors.

The facial analytics technology would scan hundreds of points on their face and extract certain information, including body mass index, physiological age and whether they're ageing faster or slower than actual age.

The program verifies a customer's identity by comparing the photo to the one on their driver's licence or another form of government-issued ID.

The pros and cons

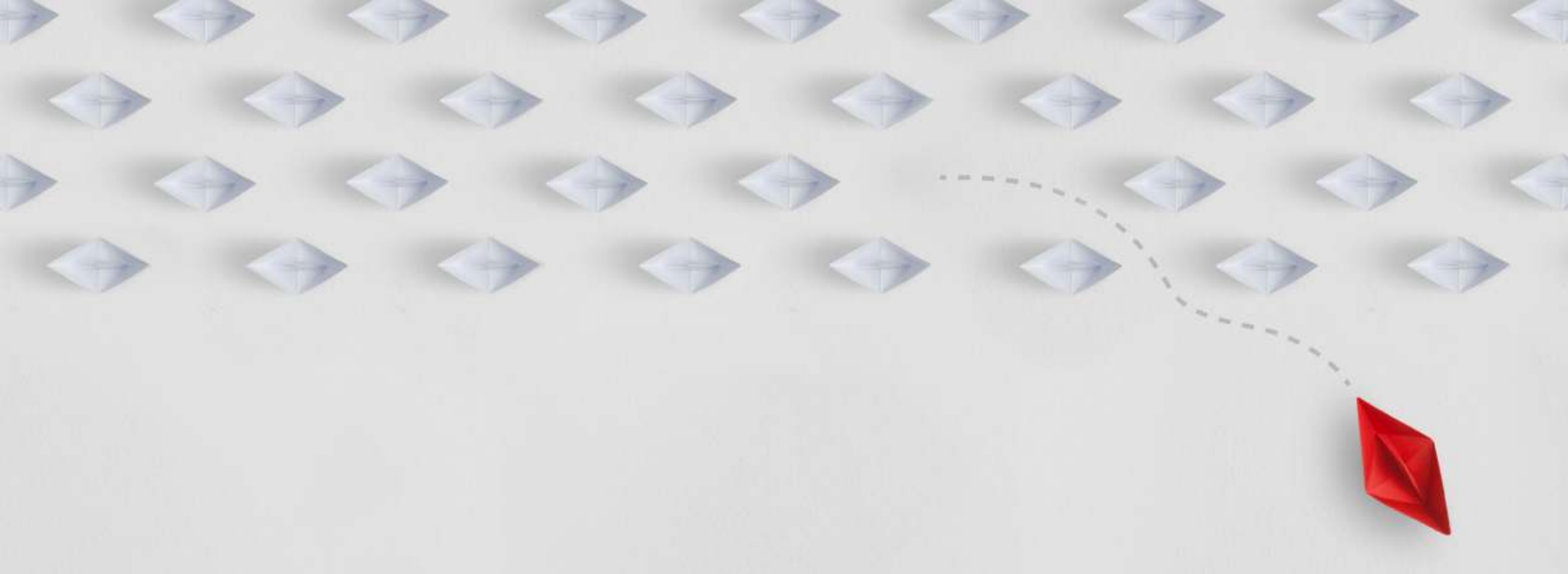
While this technology is still subject to regulatory approval the potential benefits are already becoming apparent.

For the life insurance customers of the future, facial recognition could be used to minimise the number of medical tests required, while also keeping underwriting accurate, and potentially reducing the waiting time in a typical application - providing much more tailored policies and premiums.

What happens when someone thinks they're healthy but facial analysis tells a different story? And of course, from a privacy perspective, what about those people who may not be comfortable providing such photos?

Another crucial factor in the uptake of this technology is its validity. Does this really work in 100% of cases? Inaccurate predictions of health are no good for either the customer or the insurer, so rigorous testing and time will stand to tell which new approaches prove effective.

In other words, it could be some time before you can rely on such an approach.



DOES 'TRANSITION TO RETIREMENT' STILL WORK?

By Peter Kelly

Many readers will be familiar with a popular superannuation strategy referred to as 'transition to retirement'. However, with the superannuation reforms that were introduced from 1 July 2017, some are questioning whether the transition to retirement is still a viable strategy.

Background

Back in 2005, changes to superannuation legislation allowed people to access their superannuation benefits, even though they had not retired. This change was referred to as 'transition to retirement' or more affectionately, TTR. The idea behind TTR was to allow people to progressively reduce their working hours and start drawing down on their super to supplement their reduced wage. There were several conditions attached to the operation of TTR. These included:

1. Super benefits could only be drawn as pension or income stream payments.
2. Payments had to be between 4% and 10% of a person's super account balance.
3. Lump sums cannot be drawn from a pension account, although the annual prescribed level of pension income could be taken as a single income payment.

The evolution of TTR

When the legislation supporting TTR was introduced, a notable omission was the requirement that a person had to reduce their working hours. Whether this was deliberate or accidental remains one of life's mysteries, however, in over 10 years of TTR, the requirement to have reduced working hours remains absent.

When TTR was first introduced, it didn't take long to realise that a unique tax planning opportunity had emerged.

Money paid in the form of salary or wages is included as assessable income and is taxed at the recipient's marginal tax rate. This may be anywhere between 0% to 45%, plus the Medicare Levy. However, contributions made to a superannuation fund are generally taxed at a maximum rate of 15% .

Consequently, there are significant benefits to having salary contributed to superannuation (being taxed at 15%), rather than receiving it as income that is taxed at the marginal tax rate (up to 45%). Foregoing salary and having it paid to superannuation is referred to as 'salary sacrifice'.

Income payments made from a superannuation fund are also favourably taxed, particularly for people aged 60 or older, where no tax is payable on pension payments.

To cap things off, where a super fund is paying benefits to members in the form of a pension or income stream, the super fund pays no tax on the investment income it derives from its investments. This translates to a higher investment return to the members of the super fund.

To recap, the taxation benefits of a TTR pension are:

- TTR pension income paid from the fund to the member is concessionally taxed, particularly where a member is aged 60 or older.
- Investment earnings of super funds paying pensions are tax exempt to the super fund, thereby enhancing returns paid to members.
- Contributions made to super under a salary sacrifice arrangement are more favourably taxed than if the income was paid as a wage or salary.

> ***"When TTR was first introduced, it didn't take long to realise that a unique tax planning opportunity had emerged"***

As a result, TTR offered significant benefits to those able to access their super, even if they may not need the additional income.

When bringing all the pieces together, the most popular application of TTR involved a person sacrificing part of their salary to super, and then commencing a TTR pension to replace their reduced salary. In simple terms, by working the tax advantages offered by TTR and salary sacrificing, considerable additional superannuation savings – often tens of thousands of dollars – could be accumulated in super in the years leading up to eventual retirement.

What has changed?

In its 2016 Budget, the government announced several important changes that would impact on TTR arrangements. These apply from 1 July 2017.

The first change that has a bearing on the attractiveness of TTR is the reduction, from $35,000 to $25,000, in the maximum amount that can be contributed to superannuation as an employer or salary sacrificed 'concessional' contribution. These contributions were critical to maximising the tax advantage of TTR.

While the reduction in the concessional contribution cap has had a negative, detrimental effect on salary sacrificing and the TTR strategy, it is not 'the end of the world'!

The other change that applies from 1 July 2017 is the removal of the tax exemption on investment earnings made by superannuation funds on those investments they hold that are supporting TTR pensions.

These two changes will have an impact on the appropriateness of TTR pensions going forward. However, this remains a viable strategy for the right person at the right place and time.

TTR pensions remain appropriate for several groups including:

1. Those looking to supplement their income due to reduced working hours, transition from full-time to part-time work, or because of permanent work becoming casual. Those who need to supplement their income will continue to be able to do so using TTR. But remember, this is only available to people who have reached their preservation age (currently 56, but progressively increasing to 60 for those born after 30 June 1961).

   In some circumstances, drawing an income from superannuation under a TTR arrangement may be appropriate when looking to make additional mortgage repayments or repay other debts in the lead-up to full-time retirement. Remember, that if drawing an income under TTR rules, limits apply to the amount that may be paid on an annual basis.

2. If aged 60 or older, TTR still represents a viable strategy when coupled with salary sacrifice - albeit at lower levels than previously available.

3. People aged between their preservation age and 60 may still benefit from TTR where they have a reasonable amount of their superannuation account held as a tax-free component.

Is TTR still a viable strategy?

Like so many questions involving superannuation, the answer is very much a case of 'it depends'.

Considering the viability of TTR in a post-June 2017 world requires a close examination of personal financial circumstances and necessitates 'doing the numbers'.

If you are already drawing a TTR pension, or are wondering if it is appropriate for you, you should consider speaking with a qualified financial planner and have them provide guidance that is in your best interests.

HOUSING AFFORDABILITY – IS IT A CRISIS?

By Peter Kelly

For anyone who grew up in the 1950's, 60's or 70's, life was pretty good. Certainly, there were some folk who did it tough but for the majority, we had a roof over our head, reasonable clothes to wear – even if they were handed down – and food to eat. Life was much simpler then.

Many of us lived in a free-standing house on a 'quarter acre' (~1,000 m2) block of land somewhere in the suburbs. Often the house was modest – perhaps 3 bedrooms, with a kitchen, a lounge room and dining room. A sunroom was often added on the back and some of the later designs included the 'rumpus room'. We didn't have media rooms, a separate study or multiple living areas. Yet somehow, we all survived.

The Great Australian Dream was to have your own home on your own quarter acre. It was a rite of passage.

As time went on, families became smaller. The quarter acre block has now shrunk to 300 or 400 square metres and houses have been stretched to fill every available square millimetre of the block. And, particularly if you live in Sydney or Melbourne, prices have skyrocketed, making housing unaffordable for most unless willing to take on the burden of a huge mortgage that will extend for a lifetime or two.

It is well accepted that as nice as a home in the suburbs may be, the financial pressure that accompanies a big mortgage results in enormous stress on families as they simply try to get by from one pay to the next. Sadly, we live in a society that measures success, not by who we are as individuals, but by where we live, what we own, and the schools we send our kids to.

Over the years many people have told me about the huge sense of relief when they finally become debt free – not just free of the mortgage, but free from the car loan, personal loans and the credit cards debts.

With Australian housing prices going 'through the roof', this got me thinking about whether there is an alternative to the housing treadmill and the affordability crisis we seem to have.

Perhaps some of the alternatives to the stress and pressure of living in a 'McMansion' in the suburbs might include:

1. Moving to the country where costs are lower and the quality of life is often much better
2. Adopting a simpler lifestyle and living in a more modest home, trading down, subdividing, or embracing the tiny house movement (although that is not for everyone)
3. Sharing a house with family members or other like-minded people

These suggestions will not suit everyone but I think we need to get creative when looking at our housing options for the future, particularly if we want an affordable and stress-free living. Bigger is not always better.

How creative are you when it comes to your housing options?

WHAT'S NEW?

In this month's edition of Prepare for Life, we look at some of the key changes to Transition to Retirement (TTR), which apply from 1 July 2017. The general concessional (before-tax) contributions cap has been lowered from $35,000 to $25,000 and the fund earnings on assets financing a Transition to Retirement pension will no longer be exempt from earnings tax. The implication of these changes is very much dependent on your individual objectives, needs and financial goals.

The Great Australian Dream is a belief that, home-ownership can lead to a better life and is an expression of success and security. With Australian housing prices placing pressure on individuals due to affordability, it is important to assess your situation and discover what is an appropriate option as 'bigger is not always better'.

What is your view of the use of facial analytics to determine ones biological ageing and individualised lifespan for the use by insurance underwriters?

If you have any questions or would like to discuss your situation, please give us a call on (08) 9322 1882.

LIFE FINANCIAL PLANNERS Pty Ltd

Marijana Ravlich B.Bus SA Fin
Authorised Representative/Director

12/643 Murray St, West Perth WA 6005
P: 08 9322 1882 | F: 08 9322 1883 | M: 0410 549 562

marijana@lifefinancialplanners.com
www. lifefinancialplanners.com