Prepare for Life

LIFE FINANCIAL PLANNERS Pty Ltd

Issue 28 | December 2017

IN THIS ISSUE

CHRISTMAS – A TIME OF REFLECTION AND RENEWAL

By Mark Teale

Christmas, for most people, is a joyous time and a time to give thanks. But it is also a great time to look back over the last 12 months and try to fathom not only where the time went, but what we have achieved.

Have we achieved the goals we set ourselves at the beginning of the year or did they just get lost in the everyday activities of living?

The hardest part of achieving a goal is the discipline that is required. If you can master the discipline, you can turn the routine that is required to achieve the goal into a habit and then it becomes easy.

If you don't feel like you have achieved your goals over the last 12 months, Christmas is the perfect time to renew your vigour for what you are trying to achieve.

For pre-retirees, it is essential to look at your financial position now. Then ask the question, what is required for you to meet the financial target of the lifestyle you want for retirement?

Where do you start, you may ask?

1. **Talk to a financial adviser**
   A financial adviser will understand how much you can contribute to superannuation and will be able to provide direction and strategy to meet your goals.

2. **Compile a budget and buy yourself a notebook or download an app**
   Recording your spending will give you a good idea of where you may be wasting your money and where you can make savings. It doesn't really matter if you choose the old-fashioned notebook or whether you download an app. The important thing is to start tracking your spending.

For those of you who have retired, you are not exempt from this time of reflection.

Take the opportunity to look at what you had hoped to achieve in your retirement and what you are looking to achieve in the next 12 months. Remember, this is your time. It is not a time to sit around and look at four walls. Take the trip you have always dreamed of, do some volunteer work or learn a new trade. Try something a little outside the normal such as barista work or gravestone restoration and get paid for some part-time work.

An essential for all of us is the mandatory health check.

Listen and look at your body. Have you been sitting around a little too much and the weight plus the shortness of breath is just a little worse than it was 12 months ago? Remember it only requires a little discipline and small targets to rectify the problem. A simple two or three-kilometre walk in the fresh air will do wonders.

Christmas means something different for all people but for all us, it is a time of reflection and renewal.

USING SUPER TO BUY YOUR FIRST HOME

By Peter Kelly

For many years, the debate surrounding the ability to access superannuation (super) for the purchase of a home has raged almost unabated.

In its 2017 Federal Budget, the government announced its intention to introduce legislation that would allow first home buyers to access part of their super to purchase a home. The proposal is referred to as the First Home Super Saver (FHSS) scheme.

The relevant legislation was introduced into parliament in early September 2017 and at the time of preparing this article (late October 2017), the legislation is before the Senate.

In this article, we will consider the mechanics of the scheme and see if it is useful for Australians looking to purchase their first home.

How the scheme will work

The FHSS scheme will allow people to withdraw up to 85% of voluntary concessional contributions and up to 100% of non-concessional (after-tax) contributions, with the associated earnings on those contributions and use them towards the purchase of their first home.

Voluntary contributions include concessional contributions - contributions other than compulsory employer contributions, such as the 9.5% superannuation guarantee contributions - and non-concessional contributions – those made from after-tax income. A voluntary concessional contribution may include additional employer contributions made under a salary sacrifice arrangement and/or personal tax-deductible contributions.

The scheme will only allow access to voluntary contributions made from 1 July 2017. Voluntary contributions made in past years cannot be accessed under the FHSS scheme.

Contributions that may be withdrawn are limited to a maximum of $15,000 per annum, capped at a total of $30,000 plus associated earnings. This limit is 'per person'. A couple may, therefore, have access to up to a combined $60,000 plus earnings.

Withdrawals under the FHSS scheme cannot be made before 1 July 2018.

Amounts withdrawn (other than non-concessional contributions) will be taxed at the individual's marginal tax rate, however, a tax offset of 30% will apply.

Eligibility

There are a number of conditions that need to be met for a person to be eligible to participate in the FHSS scheme, including:

1. A person must not have previously held a freehold interest in real estate property in Australia in the past. This not only includes a principal residence but also extends to investment and commercial property.
2. While people under the age of 18 are able to make contributions to superannuation and are able to participate in the scheme, only a person aged 18 or over will be able to request the release of funds.
3. A person will only be able to submit a request for release of benefits provided they haven't previously submitted a request. That is, payments under the scheme can only be accessed once.

Associated earnings

A person participating in the FHSS scheme may withdraw their contributions, plus associated earnings.

Rather than having to calculate the actual investment earnings on each contribution made under the scheme, a simplified approach is used to calculate the earnings.

For voluntary contributions made under the FHSS scheme during the 2017/18 financial year, the associated earnings will be calculated as if the contributions were made on 1 July 2017, irrespective of the date they are

> “Making additional voluntary contributions to super provides discipline... It is set aside for the purchase of a first home, or it is locked away for retirement.”

actually made. From 1 July 2018, associated earnings will be calculated from the first day of the month in which the contribution is made. Therefore, where contributions are made at different times during the year, associated earnings will need to be calculated in respect of each contribution.

Associated earnings have nothing to do with the actual investment earnings that may be derived by a superannuation fund in respect of the contributions. They are merely used to determine the amount that may be withdrawn from super under the FHSS scheme in addition to voluntary concessional contributions.

When calculating associated earnings, the ‘shortfall interest charge’ is used, and compounds daily. The shortfall interest rate is the 90 day Back Accepted Bill rate plus 3%. At the time of writing, the shortfall interest rate was 4.7%.

Releasing contributions

When a person wishes to withdraw contributions under the FHSS scheme, the Australian Taxation Office (ATO) will make an FHSS determination. The ATO will calculate the person’s eligible voluntary contributions and the associated earnings. The total amount is referred to as the ‘FHSS maximum release amount’.

If a person then wishes to withdraw that amount from the super, they will need to request the ATO to issue a release authority. This will then be given to their superannuation fund. A fund will be unable to release benefits under the FHSS without the release authority.

After funds have been released

Once the funds have been released, they must be used to assist with the purchase of a first home.

A person will have 12 months from the date of release to use the funds to enter a contract to purchase or construct their first home. The 12 month period may be extended at the ATO’s discretion.

Once the purchase is complete, the purchaser must live in the property for a period of at least six months in the first year. The FHSS scheme is not intended to be used to purchase an investment property.

Where a property is not purchased within 12 months, the released amount must be re-contributed back to super, or additional FHSS tax becomes payable. The tax payable on the released amount is equal to 20% of the amount released.

Is the FHSS scheme a good thing?

Making voluntary contributions to super with the view of withdrawing them to help purchase a first home will depend on an individual’s personal circumstances. Making additional voluntary contributions to super provides discipline. The money can’t simply be accessed for other purposes such as an overseas trip or a new car. It is set aside for the purchase of a first home, or it is locked away for retirement.

In the end, individuals will need to consider their own situation when deciding if the scheme is appropriate for them. Appropriate financial advice will be essential.

SHOULD I CONSOLIDATE MY SUPER?

By Peter Kelly

Turn on your TV, read any number of personal finance magazines, or browse the internet for superannuation funds, and chances are you will be inundated with invitations to 'consolidate your super'.

So, is this something you should be doing and do you really need to consolidate your super?

It is a well-known fact that Australians have multiple superannuation accounts.

In fact, it is not uncommon for a person to have three or four separate accounts with different super funds. Often these accounts only hold small balances.

Generally, what happens is we change jobs and our new employer asks for our super fund details so they can make their contributions. We often don't have the details available so it is simpler just to tick the 'default fund' box on the super fund form.

And if we change addresses, it is very common to lose track of the super we have. It becomes 'lost'. In fact, at last count, there was approximately $16 billion in lost super being held by the Australian Taxation Office. Believe it or not, the tax man is keen to reunite this lost super with their rightly owners.

One way to avoid losing super is to keep track of it. And to do that, having all your super in one place – one super fund - makes a lot of sense.

Consolidating multiple superannuation accounts with different funds, into a single superannuation account is a fairly straightforward process. It is one that your preferred super fund will often do for you.

The great majority of superannuation funds charge their members administration fees. These fees will generally be expressed as a flat fee per week, month or year, and are often in the vicinity of $1.50 to $2.00 per week. On top of that, funds may charge a fee that is based on a percentage of your account balance.

So, if you are a member of four superannuation funds that each charge an administration fee of $1.50 per week, the total fees you will pay over the course of a year is $312. If all your super was in one superannuation account, you would only be paying $78 for the year. It is only a small saving but every little bit counts.

However, before rushing out and consolidating all your super into one account, you need to have a very close look at each account you have.

When you close your super accounts, you lose your insurance cover.

Before consolidating any super, pay close attention to any insurance you may have. And if you need the cover, make sure you have a new policy in place before you cancel any existing cover.

Importantly, seek advice before consolidating your super to ensure you don't accidentally cancel any important insurance cover you may require.

WHAT'S NEW?

Have you recorded your spending and considered your budget this Christmas? Did you achieve your goals this year and have you thought of your New Year's resolution?

In the 2017 Federal Budget the government announced its intention to introduce legislation known as First Home Super Saver (FHSS) scheme, which would allow first home buyers to access part of their super to purchase a home. This is still yet to be legislated.

Do you have multiple super account which only hold small balances? There are many factors to consider before consolidating superannuation accounts. It is important to seek assistance to help you make an informed decision.

Our office will be closed from Friday 22 December 2017 and will reopen on Monday 8 January 2018. We wish you and your family a fantastic Christmas and prosperous New Year.

It is always important to consider your financial objectives and review them to help you achieve the lifestyle and financial outcomes. If you have any questions or would like to discuss your situation, please give us a call on (08) 9322 1882.

SMSF SPECIALIST

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 I F: 08 9322 1883 I M: 0410 549 562

marijana@lifefinancialplanners.com
www. lifefinancialplanners.com